



# Bank of Cyprus Group

## Financial Statements

for the year ended 31 December 2006

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## Bank of Cyprus Group Directors and Executives

<p><b>Board of Directors of Bank of Cyprus Public Company Ltd (Group Holding Company)</b></p>	<p>Eleftherios P. Ioannou CHAIRMAN</p> <p>Andreas Artemis VICE CHAIRMAN</p> <p>Christos S. Pantzaris Dimitris P. Ioannou Vassilis G. Rologis Costas Z. Severis Theodoros Aristodemou Christakis G. Christofides Evdokimos Xenophontos Andreas Pittas</p> <p>Anna Diogenous George M. Georgiades Andreas J. Jacovides Christos Mouskis Manthos Mavrommatis Andreas Eliades Charilaos G. Stavrakis Yiannis Kypri</p>
<p><b>Group Executive Management</b></p>	<p>Andreas Eliades GROUP CHIEF EXECUTIVE OFFICER</p> <p>Charilaos G. Stavrakis CHIEF EXECUTIVE OFFICER – CYPRUS AND DEPUTY GROUP CHIEF EXECUTIVE OFFICER</p> <p>Yiannis Kypri GROUP CHIEF GENERAL MANAGER</p>
<p><b>Group General Managers</b></p>	<p>Antonis Jacouris GENERAL MANAGER INFORMATION AND OPERATIONS</p> <p>Vassos Shiarly GENERAL MANAGER DOMESTIC BANKING</p> <p>Christis Hadjimitsis GENERAL MANAGER FINANCE</p> <p>Nicolas Karydas GENERAL MANAGER RISK MANAGEMENT</p> <p>Constantinos Vasilakopoulos GENERAL MANAGER BANK OF CYPRUS GREECE</p> <p>Panayiotis Kanaris INTERNAL AUDITOR</p>
<p><b>Secretary</b></p>	<p>Yiannis Kypri</p>
<p><b>Legal Advisers</b></p>	<p>Chryssafinis &amp; Polyviou</p>
<p><b>Independent Auditor</b></p>	<p>Ernst &amp; Young</p>
<p><b>Registered Office</b></p>	<p>Group Headquarters 51 Stassinou Street Ayia Paraskevi, Strovolos P.O. Box. 24884, CY - 1398 Nicosia, Cyprus Telephone: +357 22842100, Telefax: +357 22336258</p>

## **Bank of Cyprus Public Company Ltd**

### **Declaration by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Financial Statements**

(in accordance with section 140(I) of the Cyprus Securities and Stock Exchange Law as amended with Law 115(I)/2005)

We the Members of the Board of Directors and the company officials responsible for the drafting of the financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2006, based on our knowledge, which is the product of careful and conscientious work, declare that the particulars which are specified in the consolidated financial statements are true and complete.

Eleftherios P. Ioannou

Andreas Artemis

Christos S. Pantzaris

Dimitris P. Ioannou

Vassilis G. Rologis

Costas Z. Severis

Theodoros Aristodemou

Christakis G. Christofides

Evdokimos Xenophontos

Andreas Pittas

Anna Diogenous

George M. Georgiades

Andreas J. Jacovides

Christos Mouskis

Manthos Mavrommatis

Andreas Eliades

Charilaos G. Stavrakis

Yiannis Kypri

Christis Hadjimitsis

27 February 2007

# Bank of Cyprus Public Company Ltd

## Directors' Report

The Board of Directors submit to the shareholders their Report together with the audited consolidated financial statements for the year ended 31 December 2006.

### Activities

Bank of Cyprus Public Company Ltd (the 'Company') is the holding company of the Bank of Cyprus Group (the 'Group'). The principal activities of the Company and its subsidiaries in Cyprus and abroad during the year continued to be the provision of banking and financial services, insurance business and property and hotel business.

The Group companies and branches are set out in Note 38 of the financial statements.

### Financial results

Profit after tax for 2006 recorded an increase of 153% compared to 2005. There has been a significant improvement in all of the Group's performance indicators as a result of the fast growth rate of the Group's business in Cyprus, combined with the cost containment program, the very positive course of the Group's insurance operations and the continuation of its dynamic expansion in Greece.

<b>Group Financial Highlights</b>			
<b>in C£ thousand</b>	<b>Change</b>	<b>2006</b>	<b>2005</b>
Profit before provisions	+56%	282.882	181.645
Profit before tax	+148%	224.523	90.558
Profit after tax	+153%	183.106	72.417
<b>Earnings per share</b>	<b>+132%</b>	<b>33,4 cent</b>	<b>14,4 cent</b>
<b>Cost/income</b>	<b>-10,0 p.p.*</b>	<b>46,7%</b>	<b>56,7%</b>
<b>Return on equity</b>	<b>+9,8 p.p.*</b>	<b>21,7%</b>	<b>11,9%</b>

\* p.p.= percentage points, 1 percentage point = 1%

<b>Group Financial Footings</b>			
<b>in C£ thousand</b>	<b>Change</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
Loans	+20%	8.365.155	6.984.211
Deposits	+13%	12.099.736	10.724.485
Equity	+19%	904.621	761.651

The above results reflect the positive effect of the steps taken for:

- Increase in business volumes (20% in loans and 13% in deposits).
- Increase in net interest income by 28%.
- Increase in net fee and commission income by 13%.
- Increase in income from insurance business by 13%.
- Containment of the rate of increase of expenses to 4%.
- Decrease of the annual charge of provision for impairment to 0,7% of total loans.

# Bank of Cyprus Public Company Ltd

## Directors' Report

### Dividends

The Board of Directors proposes the payment of a final dividend of 10 cent per share. An interim dividend of 7 cent per share was paid in December 2006. The total dividend for year 2006 amounts to 17 cent (2005: 7 cent) per share.

### Future developments

The Group has set its strategic priorities for the three years 2007-2009 aiming to enhance shareholder value on a sustainable basis. The initiatives of the Group aim to take advantage of its strategic advantages, namely its leading position in Cypriot domestic banking, the critical role of the Group in the establishment of Cyprus as an international financial centre for businesses from Russia and other countries of Eastern Europe, and its particularly successful presence in the Greek market. The Group's strategic initiatives will provide opportunities for the profitable utilisation of the Group's liquidity and capital.

The Group's strategy for the three years 2007-2009 is to focus on the following:

#### 1. Exploiting opportunities in Cyprus

- Enhancement of its position in the domestic banking market with particular focus on the retail sector.
- In addition to growth in total income, effective cost control is anticipated through further improvements in network efficiency, controlled recruitments, and through exploitation of cost synergy opportunities from the support functions in Greece and Cyprus.
- The provision charge for impairment of loans and advances is expected to decline through further credit quality improvements and the particularly effective new credit policy implemented.
- Further strengthening of the Group's leading position of profitable banking to international companies based in Cyprus.

#### 2. Further expansion in Greece and growing profitability of its maturing network

- Expansion of the Group's branch network to 190 branches by 2009 (from 120 at 31 December 2006).
- Significantly enhance profitability through the maturity of the approximately 800.000 client relationships of the Group in Greece, which will offer improved pricing and cross-selling opportunities and taking advantage of the particularly cost efficient structure of the operations.

#### 3. Expansion into new markets

The objective of the expansion into new markets is the long-term continuation of the high growth rates of the Group and is based on its strategic advantages in order to minimise the risks and create value for shareholders. Countries that have been targeted are those where Bank of Cyprus has existing client relationships, that have significant population, strong macroeconomic environment, low banking sector penetration, and brand recognition for Bank of Cyprus, thus providing very good prospects for the Group. The experience of our successful expansion into the competitive Greek market and the existing client relationships form the Group's competitive advantage compared to the competition.

#### *Commencement of operations in Romania*

The Group has already obtained all the relevant licences for the commencement of banking operations in Romania and plans the full commencement of operations in the first six months of 2007. The Group has also launched its leasing operations in Romania, aiming to utilise the experience it has acquired in the leasing sector in Greece as well as its relationships with large retailers.

#### *Commencement of operations in Russia*

The Group aims to commence operations in Russia during 2007. The largest part of the bank licensing procedure has already been completed. The Group has a large number of client relationships with businesses that operate in Russia given that Cyprus is the country of incorporation for a large number of their subsidiaries. The Group's strategy to penetrate the Russian market initially entails the development of a loan portfolio and the provision of banking services to existing corporate clients of the Group.

# Bank of Cyprus Public Company Ltd

## Directors' Report

### Risk management

Like other financial organisations, the Group is exposed to risks, the most significant of which are credit risk and market risk that arises from adverse movements in exchange rates, interest rates, equity share prices or other security prices. The Group monitors and manages these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Note 34 of the financial statements.

### Share capital

During the year, the share capital of the Company increased by C£3.259 thousand as a result of dividend reinvestment and by C£1.002 thousand following the exercise of share options by the Group's employees, as described in Note 25 of the financial statements.

### Events after the balance sheet date

Events after the balance sheet date are disclosed in Note 39 of the financial statements.

### Board of Directors

The members of the Board of Directors of the Company are listed on Page 1. All directors were members of the Board throughout the year 2006 except Mr Andreas Eliades, who was appointed on 26 June 2006 in replacement of Mr Polys G. Polyviou who retired from the Board of Directors on the same day and Messrs Charilaos G. Stavrakis and Yiannis Kypri, who were appointed on 9 November 2006, in replacement of Messrs Demetris Z. Pierides and George A. David who resigned from the Board of Directors on 27 and 28 July 2006, respectively. On 7 September 2006, the Company's Board of Directors elected Mr Eleftherios P. Ioannou as Chairman in replacement of Mr Vassilis G. Rologis who retired from his position as Chairman of the Board on 1 September 2006.

The members of the Board of Directors express their gratitude to the retired Chairman Mr Vassilis G. Rologis for his valuable contribution as Chairman of the Board of Directors. They also express their gratitude to Messrs Polys G. Polyviou, George A. David and Demetris Z. Pierides for their long period of service on the Board of Directors of the Company and its subsidiaries.

In accordance with the Company's Articles of Association, Messrs Dimitris P. Ioannou, Costas Z. Severis, Theodoros Aristodemou, Evdokimos Xenophontos, Andreas Pittas, Andreas Eliades, Charilaos G. Stavrakis, and Yiannis Kypri retire and, being eligible, offer themselves for re-election. The vacancies so created will be filled by election.

### Independent Auditor

The independent auditors of the Company, Ernst & Young, have expressed their willingness to continue in office. A resolution for their re-appointment and remuneration will be proposed at the Annual General Meeting.

**E. P. Ioannou**  
*Chairman*

27 February 2007

## Bank of Cyprus Group Consolidated Income Statement

for the year ended 31 December 2006

		2006	2005
	Notes	C£000	C£000
Turnover	2	974.290	797.255
Interest income	3	752.237	605.305
Interest expense	4	(393.608)	(325.539)
Net interest income		358.629	279.766
Fee and commission income		107.359	97.908
Fee and commission expense		(6.248)	(8.204)
Foreign exchange income		20.789	14.493
Net gains on sale and change in fair value of financial instruments	5	14.979	6.022
Income from insurance business	6	26.402	23.375
Other income	7	8.719	5.882
		530.629	419.242
Staff costs	8	(155.883)	(151.331)
Other operating expenses		(91.864)	(86.266)
<b>Profit before provisions</b>		<b>282.882</b>	181.645
Provisions for impairment of loans and advances	14	(58.359)	(91.087)
<b>Profit before tax</b>	9	<b>224.523</b>	90.558
Tax	10	(41.417)	(18.141)
<b>Profit after tax</b>		<b>183.106</b>	72.417
<b>Basic earnings per share (cent)</b>	11	<b>33,4</b>	14,4
<b>Diluted earnings per share (cent)</b>	11	<b>33,3</b>	14,4

# Bank of Cyprus Group Consolidated Balance Sheet

as at 31 December 2006

		2006	2005
	Notes	€000	€000
<b>Assets</b>			
Cash and balances with central banks	12	683.088	611.681
Placements with banks	12	2.486.465	2.578.300
Investments at fair value through profit or loss	13	236.592	89.331
Loans and advances to customers	14	8.365.155	6.984.211
Investments available-for-sale and held-to-maturity	16	2.110.688	1.945.261
Property and equipment	17	153.813	159.664
Intangible assets	18	10.284	10.927
Other assets	19	229.733	191.008
		14.275.818	12.570.383
Life assurance business net assets attributable to policyholders	20	287.157	231.806
<b>Total assets</b>		<b>14.562.975</b>	<b>12.802.189</b>
<b>Liabilities</b>			
Amounts due to banks		261.328	177.749
Customer deposits and other accounts	21	12.099.736	10.724.485
Debt securities in issue	22	433.777	318.216
Other liabilities	23	256.351	223.701
		13.051.192	11.444.151
Life assurance business liabilities to policyholders	20	287.157	231.806
Subordinated loan stock	24	320.005	364.581
<b>Total liabilities</b>		<b>13.658.354</b>	<b>12.040.538</b>
<b>Equity</b>			
Share capital	25	276.919	272.658
Share premium		341.365	311.399
Revaluation reserves and other reserves	27	99.018	95.919
Exchange adjustments reserve		(2.611)	(2.898)
Retained earnings	27	189.930	84.573
		904.621	761.651
<b>Total liabilities and equity</b>		<b>14.562.975</b>	<b>12.802.189</b>
<b>Contingent liabilities and commitments</b>			
Contingent liabilities	29	857.273	770.809
Commitments	29	1.592.332	1.389.717

**E. P. Ioannou**

Chairman

**A. Artemis**

Vice-Chairman

**A. Eliades**

Group Chief Executive Officer

**C. G. Stavrakis**

Chief Executive Officer – Cyprus and  
Deputy Group Chief Executive Officer

**Y. Kypri**

Group Chief General Manager

**Chr. Hadjimitsis**

Group General Manager Finance

# Bank of Cyprus Group

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2006

	Share capital	Share premium	Revaluation reserves and other reserves (Note 27)	Exchange adjustments reserve	Retained earnings (Note 27)	Total equity
	€000	€000	€000	€000	€000	€000
At 1 January 2006	272.658	311.399	95.919	(2.898)	84.573	761.651
Gains/(losses) from changes in fair value of available-for-sale investments:						
- treasury bills and debt securities	-	-	(12.386)	-	-	(12.386)
- equity shares	-	-	23.341	-	-	23.341
Losses from change in fair value of financial instruments designated as cash flow hedges	-	-	(599)	-	-	(599)
Deferred tax	-	-	1.485	-	-	1.485
Exchange adjustments	-	-	-	287	-	287
Increase in value of life assurance policies in force after tax (Note 20)	-	-	4.100	-	(4.100)	-
Transfer of realised profits on disposal of property	-	-	(798)	-	798	-
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(12.044)	-	-	(12.044)
Net profit/(loss) recognised directly in equity	-	-	3.099	287	(3.302)	84
Profit after tax for the year	-	-	-	-	183.106	183.106
Total profit for the year	-	-	3.099	287	179.804	183.190
Dividends paid (Note 26)	-	-	-	-	(76.712)	(76.712)
Dividend reinvestment (Note 25)	3.259	24.434	-	-	-	27.693
Exercise of share options (Note 25)	1.002	5.532	-	-	-	6.534
Cost of share-based payments (Note 8)	-	-	-	-	2.265	2.265
At 31 December 2006	<b>276.919</b>	<b>341.365</b>	<b>99.018</b>	<b>(2.611)</b>	<b>189.930</b>	<b>904.621</b>

# Bank of Cyprus Group

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2005

	Share capital	Share premium	Revaluation reserves and other reserves (Note 27)	Exchange adjustments reserve	Retained earnings (Note 27)	Total equity
	C€000	C€000	C€000	C€000	C€000	C€000
At 1 January 2005	232.385	238.955	56.918	(2.828)	33.683	559.113
Gains from changes in fair value of available-for-sale investments:						
- treasury bills and debt securities	-	-	30.087	-	-	30.087
- equity shares	-	-	5.072	-	-	5.072
Transfer to the income statement on termination of cash flow hedges	-	-	4.043	-	-	4.043
Deferred tax	-	-	1.807	-	-	1.807
Exchange adjustments	-	-	-	(70)	-	(70)
Increase in value of life assurance policies in force after tax (Note 20)	-	-	2.200	-	(2.200)	-
Transfer of realised profits on disposal of property	-	-	(148)	-	148	-
Transfer to the income statement on redemption/sale of available-for-sale investments	-	-	(4.060)	-	-	(4.060)
Net profit/(loss) recognised directly in equity	-	-	39.001	(70)	(2.052)	36.879
Profit after tax for the year	-	-	-	-	72.417	72.417
Total profit/(loss) for the year	-	-	39.001	(70)	70.365	109.296
Dividend paid	-	-	-	-	(18.591)	(18.591)
Defence contribution on deemed dividend distribution (Note 27)	-	-	-	-	(884)	(884)
Dividend reinvestment (Note 25)	1.322	2.907	-	-	-	4.229
Issue of share capital (Note 25)	38.951	70.112	-	-	-	109.063
Share capital issue costs	-	(575)	-	-	-	(575)
At 31 December 2005	<b>272.658</b>	<b>311.399</b>	<b>95.919</b>	<b>(2.898)</b>	<b>84.573</b>	<b>761.651</b>

# Bank of Cyprus Group

## Consolidated Cash Flow Statement

for the year ended 31 December 2006

		2006	2005
	Note	€000	€000
<b>Net cash flow from operating activities</b>	31	<b>218.770</b>	1.264.754
<b>Cash flow from investing activities</b>			
Purchases of investments			
- treasury bills		(94.278)	(62.044)
- debt securities		(944.518)	(1.035.297)
- equity shares		(793)	(224)
Proceeds on disposal/redemption of investments			
- treasury bills		117.410	139.282
- debt securities		743.613	738.960
- equity shares		10.680	1.241
Interest on treasury bills		2.119	4.210
Interest on debt securities		90.366	69.002
Dividend income from equity shares		999	428
Purchase of property and equipment		(9.902)	(17.991)
Proceeds on disposal of property and equipment		2.516	1.437
Purchase of intangible assets		(4.172)	(2.967)
Purchase of investment property		(6.244)	-
Proceeds on disposal of investment property		6.007	895
<b>Net cash flow used in investing activities</b>		<b>(86.197)</b>	(163.068)
<b>Cash flow from financing activities</b>			
Issue of share capital		6.534	108.488
Issue of subordinated loan stock		114.840	-
Redemption of subordinated loan stock		(153.237)	-
Dividend payment		(49.019)	(14.362)
Interest on subordinated loan stock		(16.886)	(16.772)
<b>Net cash flow (used in)/from financing activities</b>		<b>(97.768)</b>	77.354
<b>Net increase in cash and cash equivalents for the year</b>		<b>34.805</b>	1.179.040
<b>Cash and cash equivalents</b>			
At 1 January		2.780.103	1.601.133
Exchange adjustments		287	(70)
Net increase in cash and cash equivalents for the year		34.805	1.179.040
At 31 December	32	<b>2.815.195</b>	2.780.103

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

The accounting policies followed in respect of items that are considered material for the annual results and the presentation of the financial position of Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (the 'Group') are stated below.

### 1. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for properties, investment properties, available-for-sale investments, derivative financial instruments and financial assets at fair value through profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Cyprus pounds (C£) and all amounts are rounded to the nearest thousand except when otherwise indicated.

### Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

All IFRSs issued by the IASB and effective at the time of preparing these consolidated financial statements, have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of International Accounting Standard (IAS) 39 'Financial Instruments: Recognition and measurement' relating to portfolio hedge accounting. Since the Group is not affected by these provisions, these consolidated financial statements comply with both the IFRSs as adopted by the EU and the IFRSs as issued by the IASB.

In addition, the consolidated financial statements have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113 and the Cyprus Stock Exchange Laws and Regulations.

### 2. Adoption of new and amended IFRSs

As from 1 January 2006, new IFRSs, interpretations and amendments have come into effect. These did not have any effect on the financial statements of the Group, except as set out below:

#### ***IAS 1 and IAS 19, Amendments 'Actuarial Gains and Losses, Group Plans and Disclosures'***

The amended IAS 19 offers an additional option regarding the recognition of actuarial gains and losses related to defined benefit plans. It allows the recognition of all actuarial gains and losses through the statement of recognised gains and losses directly in equity. IAS 19 requires additional disclosures. It also gives guidance on the treatment by entities within a group of certain employee benefits in their individual financial statements and requires additional disclosures.

This amendment has resulted in additional disclosures by the Group for the year ended 31 December 2006 as well as comparative information for year 2005. The Group has elected not to apply the new option offered and therefore the amendment had no impact on the recognition and measurement of actuarial gains and losses.

### 3. Standards and interpretations that are issued but not yet effective

Up to the date of approval of the financial statements, certain new standards, interpretations and amendments to existing standards have been published but are not yet effective for the current reporting period and which the Group has not early adopted, as follows:

#### **(i) Standards and interpretations issued (i) by the IASB and adopted by the EU**

##### ***IFRS 7 'Financial Instruments: Disclosures' and a complementary amendment to IAS 1, 'Presentation of Financial Statements – Capital Disclosures' (effective for annual periods beginning on or after 1 January 2007)***

IFRS 7 requires additional disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments. In particular, it specifies minimum disclosures about credit risk, liquidity risk and market risk. IFRS 7 replaces IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation'.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 3. Standards and interpretations that are issued but not yet effective *(continued)*

#### (i) Standards and interpretations issued by the IASB and adopted by the EU *(continued)*

**IFRS 7 'Financial Instruments: Disclosures' and a complementary amendment to IAS 1, 'Presentation of Financial Statements – Capital Disclosures' (effective for annual periods beginning on or after 1 January 2007) *(continued)***

The amendment to IAS 1 introduces disclosures relating to the level of an entity's capital and how it is managed.

The Group does not expect that the adoption of IFRS 7 and the amended IAS 1 will have any material effect on the financial statements, except for the additional disclosures required.

**IFRIC 7 'Applying the Restatement Approach' under IAS 29 'Financial Reporting in Hyperinflationary Economies' (effective for annual periods beginning on or after 1 March 2006)**

International Financial Reporting Interpretation (IFRIC 7) requires entities to apply IAS 29 in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency, as if the economy had always been hyperinflationary. IFRIC 7 is not relevant to the Group.

**IFRIC 8 'Scope of IFRS 2' (effective for annual periods beginning on or after 1 May 2006)**

IFRIC 8 clarifies that IFRS 2 'Share-Based Payments' applies to any arrangement by which equity shares are granted or liabilities (based on the value of an entity's equity shares) are incurred and the identifiable consideration appears to be less than the fair value of the equity shares granted or the liabilities incurred. IFRIC 8 is not relevant to the Group.

**IFRIC 9 'Reassessment of Embedded Derivatives' (effective for annual periods beginning on or after 1 June 2006)**

IFRIC 9 requires an entity to assess upon entering into a contract, whether this contains an embedded derivative and prohibits reassessment unless there is a change to the contract terms as a result of which there are significant changes in the cash flows. IFRIC 9 is not relevant to the Group.

#### (ii) Standards and interpretations issued by the IASB but not yet adopted by the EU

**IFRS 8 'Operating Segments' (effective for annual periods beginning on or after 1 January 2009)**

IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a management-based approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. The Group is in the process of assessing the impact of this standard on its financial statements.

**IFRIC 10 'Interim Financial Reporting and Impairment' (effective for annual periods beginning on or after 1 November 2006)**

IFRIC 10 may impact the financial statements should any impairment losses be recognised in the interim financial statements in relation to goodwill, available-for-sale investments or unquoted equity shares carried at cost as these losses may not be reversed in subsequent interim periods or when preparing the annual financial statements.

**IFRIC 11, IFRS 2 'Group and Treasury Share Transactions' (effective for annual periods beginning on or after 1 March 2007)**

IFRIC 11 requires arrangements whereby an employee is granted options to buy equity shares, to be accounted for as equity-settled schemes by an entity even if the entity chooses or is required to buy those equity shares from another party, or the shareholders of the entity provide the equity shares granted. The interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to equity instruments of the parent.

This Interpretation applies to the way the Group's subsidiaries account, in their individual financial statements, for options granted to their employees to buy equity shares of the Company. The accounting treatment followed by the Group is in line with the relevant provisions of the Interpretation.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 3. Standards and interpretations that are issued but not yet effective *(continued)*

#### (ii) Standards and interpretations issued by the IASB but not yet adopted by the EU *(continued)*

##### **IFRIC 12 'Service Concession Arrangements' (effective for annual periods beginning on or after 1 January 2008)**

IFRIC 12 outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognise a financial asset and/or an intangible asset. IFRIC 12 is not relevant to the Group.

### 4. Significant accounting judgments and estimates

The preparation of the financial statements requires the Group's management to make judgments and estimates that can significantly affect the amounts recognised in the financial statements, the most significant of which are presented below:

#### **Provision for impairment of loans and advances**

The Group reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the income statement. In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required. Such estimates are based on assumptions about a number of factors and therefore actual results may differ, resulting in future adjustments to the level of the provision.

In addition to provisions for impairment against individually significant loans and advances, the Group also makes a collective impairment provision. In determining the amount of the collective provision, a number of estimates are made by management, such as (a) the classification of loans into portfolios of similar credit risk characteristics, (b) the estimated period between the event causing impairment and the identification of the impairment loss and (c) whether current economic conditions are such that the actual amount of incurred losses is likely to be greater or lower than that derived from historical experience.

#### **Fair value of treasury bills, equity shares, debt securities and derivative financial instruments**

The fair value of treasury bills, equity shares, debt securities and derivative financial instruments that are not quoted in an active market, is determined using valuation models. These models are periodically reviewed by qualified personnel and validated.

To the extent possible, models use observable data, as well as factors such as the determination of credit risk and volatilities which require management to make estimates and assumptions. Changes in these estimates and assumptions could affect the fair value of the relevant financial instruments.

#### **Impairment of available-for-sale investments in equity shares**

Available-for-sale investments in equity shares are measured at fair value with fair value changes taken to the 'Revaluation reserve' in equity. Available-for-sale investments in equity shares are impaired when there has been a significant or prolonged decline in their fair value below cost. In such a case, the total loss previously recognised in equity is recognised in the income statement.

The determination of what is significant or prolonged requires judgement by management. The factors which are evaluated include the expected volatility in share prices. In addition, impairment may be appropriate when there is evidence that significant adverse changes have taken place in the technological, market, economic or legal environment in which the investee operates.

#### **Retirement benefits**

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rate of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

#### **General insurance business**

For general insurance contracts, a provision is made for the estimated cost of claims notified but not settled and claims incurred but not reported at the balance sheet date. Estimates regarding the provisions for claims are based on past experience and industry practices.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 4. Significant accounting judgments and estimates *(continued)*

#### **Life assurance business**

For life assurance contracts, actuarial estimates are made in respect of the liabilities arising from death claims, based on standard international mortality tables that reflect historical mortality experience. Estimates are also made as to future investment income arising from assets used to cover liabilities arising from life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Estimates for future deaths, voluntary terminations, investment returns and administration expenses are used to calculate the liability over the term of the contract. At each reporting date, these estimates are reassessed and monitored for adequacy and any changes are reflected with corresponding adjustments to the liability amount.

#### **Taxation**

The Group operates and is therefore subject to taxation in various countries. Estimates are required in determining the provision for taxes at the balance sheet date and therefore the final tax determination is uncertain. Where the final tax is different from the amounts that were initially recognised, such differences will impact the income tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

### 5. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

All intra-group balances and transactions are eliminated on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating strategies of an entity so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, respectively.

An excess of the cost of acquisition over the fair values of the identifiable net assets acquired, is recognised as goodwill on the balance sheet. Where the fair values of the identifiable net assets are greater than the cost of acquisition (i.e. a discount on acquisition), the difference is recognised directly in the income statement in the year of acquisition.

In order to reflect the different nature of the shareholders' and policyholders' interests in the long-term life assurance business, the value of long-term life assurance business net assets attributable to policyholders are presented separately in the consolidated balance sheet.

### 6. Interest in joint ventures

The Group recognises its interest in joint ventures using proportionate consolidation. The financial statements of the joint venture entities are prepared for the same reporting year as the Company, using consistent accounting policies.

### 7. Foreign currency translation

The consolidated financial statements are presented in Cyprus pounds (C£), which is the functional and presentation currency of the Company and its subsidiaries in Cyprus. Each overseas branch or subsidiary of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 7. Foreign currency translation (continued)

#### (i) Transactions and balances

Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to 'Foreign exchange income' in the income statement, with the exception of differences on foreign currency liabilities that provide a hedge against the net investment in overseas branches and subsidiaries. These differences are recognised directly in equity in the 'Exchange adjustments reserve' until the disposal of the net investment, at which time they are recognised in the income statement.

Non-monetary items that are measured at historic cost in a foreign currency, are translated using the exchange rates ruling as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined.

#### (ii) Subsidiary companies and branches

At the reporting date, the assets and liabilities of overseas subsidiaries and branches are translated into the Group's presentation currency (Cyprus pounds) at the rate of exchange ruling at the balance sheet date, and their income statements are translated using the average exchange rates for the year. Any goodwill arising on the acquisition of overseas branches and subsidiaries and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition, are treated as assets and liabilities of the foreign branches and subsidiaries and translated at the rate ruling on the balance sheet date.

Exchange differences arising on translation are recognised directly in the 'Exchange adjustments reserve' in equity. On disposal of an overseas subsidiary or branch, the cumulative amount of the exchange differences previously recognised in equity and relating to that particular overseas operation, is recognised in the income statement as part of the profit or loss on disposal.

### 8. Segmental reporting

The Group is organised by business segments and this is the primary format for segmental reporting. Each business segment provides products or services which are subject to risks and returns that are different from those of other business segments. The geographic segments cover products or services which are subject to risks and returns that are different from those of similar products and services provided in other economic environments.

### 9. Turnover

Group turnover comprises gross interest income, fee and commission income, foreign exchange income, gross insurance premiums, turnover of property and hotel business and other income.

### 10. Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Group and the revenue can be reliably measured.

#### (i) Interest income

For all financial assets measured at amortised cost and interest bearing financial assets classified as available-for-sale investments, interest income is recognised using the effective interest rate method.

Interest and other income from non-performing loans and advances is not recognised in the income statement but is credited to a balance sheet suspense account. Non-performing loans and advances are defined as: (a) loans and advances that are more than three months in arrears and are not fully secured, (b) overdraft accounts that are over 5% in excess of their credit limit on a continuous basis for more than three months and are not fully secured at the date of calculation of the accrued interest, and (c) loans and advances for which a provision for impairment has been made.

Non-performing loans and advances in 2005 were defined as: (a) loans and advances that were more than six months in arrears and were not fully secured, (b) overdraft accounts that were in excess of their credit limit and were not fully secured at the date of calculation of the accrued interest, to the extent that the accrued interest or other income was not covered by the total of the amounts credited in the account during the previous six months, and (c) loans and advances for which a provision for impairment was made.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 10. Revenue recognition (continued)

#### (i) Interest income (continued)

Interest and other income credited to a balance sheet suspense account, are transferred to the income statement upon collection or when the relevant loans and advances cease to be classified as non-performing.

#### (ii) Fee and commission income

Fee and commission income is recognised on the basis of work done so as to match the cost of providing the service, whereas fees and commissions in respect of credit risk are recognised in the income statement on a systematic basis over the period of the exposure.

#### (iii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

#### (iv) Rental income

Rental income from investment properties is accounted for on a straight-line basis over the period of the lease and is recognised in the income statement in 'Other income'.

#### (v) Income from the disposal of property held for sale

Income and cost of sales from the disposal of these properties is recognised in the income statement in 'Other income' when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

### 11. Retirement benefits

The Group operates several defined benefit retirement plans. The main retirement benefit plans require the payment of contributions to separately administered funds (funded schemes).

The cost of providing benefits is estimated separately for each plan using the Projected Unit Credit Method of actuarial valuation.

Actuarial gains or losses are recognised as income or expense if the net cumulative unrecognised gains or losses at the end of the previous reporting period exceed the greater of 10% of the present value of the defined benefit obligations of the plan or 10% of the fair value of plan assets as at that date. The portion of the actuarial gains or losses to be recognised is the excess amount determined above, divided by the expected average remaining working lives of the employees participating in the plan.

The cost of providing benefits under defined contribution and early retirement plans is recognised in the income statement on an accruals basis.

### 12. Share-based benefits

The Group grants to its employees options to buy equity shares or other securities of the Company. These are recognised as share based equity-settled transactions. The cost of equity-settled transactions is measured by reference to the fair value at the date on which the options are granted. The fair value is determined using appropriate valuation models.

The cost of share-based benefits is recognised over the period in which the vesting conditions are fulfilled and which ends when the right of the employees to receive the shares is established. The total cost recognised at each reporting date reflects the Group's best estimate of the number of equity instruments that will ultimately vest.

The income statement charge or credit for a period is included in 'Staff costs' and represents the movement in the cumulative cost recognised as at the beginning and end of that period, with a corresponding debit or credit in 'Retained earnings' in equity.

No cost is recognised for benefits which do not ultimately vest.

The above are applicable to benefits granted after 7 November 2002 and which had not vested by 1 January 2005, which is the date of adoption of IFRS 2 by the Group.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 13. 13.

### Financial instruments

#### (i) Date of recognition

Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Derivatives are recognised on a trade date basis. 'Amounts due to banks', 'Customer deposits and other accounts', 'Placements with banks' and 'Loans and advances to customers' are recognised when cash is received by the Group or advanced to the borrowers.

#### (ii) Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

#### (iii) Derivatives classified at fair value through profit or loss

Derivatives are recorded at fair value and classified as assets when their fair value is positive and as liabilities when their fair value is negative. Subsequently derivatives are measured at fair value. Changes in the fair value of derivatives held for trading are included in 'Net gains on sale and change in fair value of financial instruments' in the income statement.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself measured at fair value with fair value changes recognised in the income statement. The embedded derivatives separated from the host are carried at fair value, with changes in fair value recognised in 'Net gains on sale and change in fair value of financial instruments' in the income statement.

#### (iv) Financial assets or financial liabilities held for trading

Other financial assets or financial liabilities held for trading are recognised in the balance sheet at fair value. Changes in fair value are recognised in 'Net gains on sale and change in fair value of financial instruments' in the income statement. Interest income and expense are included in the corresponding captions according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

#### (v) Financial assets or financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistency that would otherwise arise from the measurement of the assets or liabilities or the recognition of gains or losses on them on a different basis, or (b) the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or (c) the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows of the instrument or it is clear, with little or no analysis, that the embedded derivative could not be separated.

Financial assets and financial liabilities at fair value through profit or loss are recognised in the balance sheet at fair value. Changes in fair value are recognised in 'Net gains on sale and change in fair value of financial instruments' in the income statement. Interest income and expense are included in the corresponding captions according to the terms of the relevant contract, while dividend income is recognised in 'Other income' when the right to receive payment has been established.

#### (v) Held-to-maturity investments

Held-to-maturity investments are those which carry fixed or determinable payments and have fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest income' in the income statement. Losses arising from impairment of such investments are recognised in 'Net gains on sale and change in fair value of financial instruments' in the income statement.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 13. Financial instruments (continued)

#### (vi) Loans and advances

Loans and advances to customers are financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Investments held for trading', nor designated as 'Investments available-for-sale' or 'Investments at fair value through profit or loss'. This accounting policy covers the balance sheet captions 'Placements with banks' and 'Loans and advances to customers'. After their initial recognition, loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The losses arising from impairment are recognised in the income statement in 'Provisions for impairment of loans and advances'.

#### (vii) Available-for-sale investments

Available-for-sale investments are those which are designated as such or do not qualify to be classified as 'Investments at fair value through profit or loss', 'Investments held-to-maturity' or 'Loans and advances'. These investments can be sold in response to changes in market risks or liquidity requirements and include equity shares, debt securities and treasury bills.

After initial measurement, available-for-sale investments are measured at fair value. Unrealised gains and losses from changes in fair value are recognised directly in equity in the 'Revaluation reserve'. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Net gains on sale and change in fair value of financial instruments'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a weighted average cost basis. Interest income from available-for-sale debt securities and treasury bills is recorded as 'Interest income' using the effective interest rate method. Dividend income from available-for-sale equity shares is recognised in the income statement in 'Other income' when the right to receive payment has been established. Impairment losses on available-for-sale investments are recognised in the income statement in 'Net gains on sale and change in fair value of financial instruments'.

#### (viii) Subordinated loan stock and debt securities in issue

Subordinated loan stock and debt securities in issue are initially measured at cost, being the fair value of the consideration received, net of any issue costs. They are subsequently measured at amortised cost using the effective interest rate method, in order to amortise the difference between the cost at inception and the redemptions value, over the period to the earliest date that the Company has the right to redeem the subordinated loan stock and the debt securities in issue.

Debt instruments issued by the Company and held by the Group for trading purposes are treated as redemptions. Gains or losses on redemption are recognised if the repurchase price of the debt instrument was different from its carrying value at the date of repurchase. Subsequent sales of own debt instruments in the market are treated as debt re-issuance.

Interest on subordinated loan stock and debt securities in issue is included in 'Interest expense' in the income statement.

### 14. Derecognition of financial assets and financial liabilities

#### (i) Financial assets

A financial asset is derecognised when: (a) the rights to receive cash flows from the asset have expired, or (b) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full to a third party and has: either (a) transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

#### (ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 15. Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets, that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower might be declared bankrupt or proceed with a financial restructuring and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or the economic conditions that correlate with defaults.

#### (i) Loans and advances to customers

For loans and advances to customers carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for loans and advances that are individually significant. Furthermore, a collective impairment assessment is made for loans and advances that are not individually significant and for losses that have been incurred but are not yet identified relating to loans and advances that have been assessed individually and for which no provision has been made.

The collectability of individually significant loans and advances is evaluated based on the customer's overall financial condition, resources and payment record, the prospect of support from creditworthy guarantors and the realisable value of any collateral.

There is objective evidence that a loan is impaired when it is probable that the Group will not be able to collect all amounts due according to the original contract terms, unless such loans are secured or other factors exist whereby the Group expects that all amounts due will be received.

If there is objective evidence, that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows (excluding future credit losses not yet incurred) including the cash flows which may arise from guarantees and tangible collateral, irrespective of the outcome of foreclosure. The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. Loans are monitored continuously and are reviewed for impairment every six months. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the credit worthiness of the customer has improved to such an extent that there is reasonable assurance that all principal and interest according to the original contract terms of the loan will be collected timely, the previously recognised impairment loss is reduced by adjusting the provision account. If a previously written-off loan is subsequently recovered, any amounts previously charged are credited to 'Provisions for impairment of loans and advances' in the income statement.

The present value of the estimated future cash flows is discounted using the loan's original effective interest rate. If a loan bears a variable interest rate, the discount rate used for measuring any impairment loss is the current reference rate plus the margin specified in the initial contract.

For the purposes of a collective evaluation of impairment, loans are grouped based on similar credit risk characteristics using the Group's internal credit rating systems that take into account the type of the loan and the industry, geographic a location, collateral type, past-due amounts and other relevant factors.

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics to those of the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 15. Impairment of financial assets (continued)

#### (ii) Held-to-maturity investments

For held-to-maturity investments the Group assesses at each balance sheet date whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses not yet incurred). The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the impairment loss previously recognised is reversed and the reversal is credited to the 'Net gains on sale and change in fair value financial instruments' in the income statement.

#### (iii) Available-for-sale investments

For available-for-sale investments, the Group assesses whether there is objective evidence of impairment at each balance sheet date.

In the case of equity shares classified as available-for-sale, objective evidence would include a significant or prolonged decrease in the fair value of the investment below cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is deducted from the 'Revaluation reserve' and recognised in the income statement. Impairment losses on equity shares are not reversed through the income statement. Increases in their fair value after impairment are recognised in the 'Revaluation reserve' in equity.

In the case of debt securities and treasury bills classified as available-for-sale, impairment is assessed based on the same criteria applicable to financial assets carried at amortised cost. If, in a subsequent period, the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss previously recognised is reversed through the income statement.

### 16. Hedge accounting

The Group uses derivative financial instruments to hedge exposures to interest rate and foreign currency risks. The Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk and the objective and strategy for undertaking the hedge. The method that will be used to assess the effectiveness of the hedging relationship forms part of the Group's documentation.

At inception of the hedging relationship, a formal assessment is also undertaken to ensure that the hedging relationship is highly effective regarding the offsetting of the changes in fair value or the cash flows attributable to the hedged risk. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk of the hedging instrument and the hedged item during the period for which the hedge is designated, are expected to offset in a range of 80% to 125%. In the case of cash flow hedges where the hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

#### (i) Fair value hedges

In the case of fair value hedges that meet the criteria, the change in the fair value of a hedging instrument is recognised in the income statement in 'Net gains from sale and change in fair value of financial instruments'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the income statement in 'Net gains from sale and change in fair value of financial instruments'.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedging relationship is terminated.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 16. Hedge accounting *(continued)*

#### (ii) Cash flow hedges

In the case of cash flow hedges that meet the criteria, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity in the 'Cash flow hedge reserve'. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement.

When the hedged cash flows affect the income statement, the gain or loss previously recognised in the 'Cash flow hedge reserve' is transferred to the income statement.

#### (iii) Hedge of a net investment

Hedges of net investments in overseas branches or subsidiaries are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while gains or losses relating to the ineffective portion are recognised in the income statement.

On disposal of the overseas branch or subsidiary, the cumulative gains or losses recognised directly in equity are recognised in the income statement.

### 17. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 18. Classification of insurance products

The Group issues only insurance contracts. An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract until expiry or until all of the rights and obligations under the contract have been fulfilled, even if the insurance risk has been significantly reduced during its term.

### 19. Life assurance business

Income from long-term life assurance business, recognised in the income statement, comprises: (a) gross insurance premiums net of reinsurance premiums, policy management fees, net claims, commissions to insurance intermediaries and the adjustments to insurance contract obligations, and (b) the change in the present value of future income from insurance contracts in force. The change in the present value of in-force insurance business is determined on a post tax basis. For presentation purposes, the change in value is grossed up at the underlying rate of tax. Staff costs and other operating expenses are included in the relevant expense captions of the income statement.

Premium income from unit-linked insurance contracts is recognised when received and when the units have been allocated to policyholders. Premium income from non-linked insurance contracts is recognised when due, in accordance with the terms of the relevant insurance contracts.

Fees and other expenses chargeable to the long-term assurance funds in accordance with the terms of the relevant insurance contracts, as well as the cost of death cover, are recognised in a manner consistent with the recognition of the relevant insurance premiums.

Commissions to insurance intermediaries are recognised in the income statement on an accruals basis, in accordance with the terms of the contracts with intermediaries.

Life assurance contract liabilities are determined on the basis of an actuarial valuation and for unit-linked insurance contracts they include the fair value of units allocated to policyholders on a contract by contract basis.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 20. General insurance business

Income from general insurance business in the income statement consists of gross insurance premiums net of reinsurance premiums, net claims and commissions to insurance intermediaries, and the adjustments to insurance contract obligations. Staff costs and other operating expenses are included in the relevant expense captions of the income statement.

Premium income from insurance contracts (including reinsurance contracts) issued by the Group is recognised when due, in accordance with the terms of the relevant insurance contracts. Assigned reinsurance premiums are recognised in a manner consistent with the associated reinsured business and in accordance with the relevant reinsurance contracts held by the Group. Unearned insurance and reinsurance premiums relating to the period of risk after the balance sheet date are deferred to subsequent reporting periods.

A provision is made for the estimated cost of claims reported but not settled and claims incurred but not reported at the balance sheet date. The provision for the cost of claims reported but not settled is made on a case by case basis after taking into consideration all known facts, recent past experience and assumptions regarding the future outcome of outstanding cases. The provision for claims incurred but not reported at the balance sheet date is estimated in accordance with the relevant legislation.

### 21. Long-term life assurance business

The Group accounts for its interest in long-term life assurance business using the embedded value basis of accounting.

The embedded value comprises of the net assets of the life assurance subsidiary, including any surplus retained within the long-term business funds which could be transferred to the shareholders, and the present value of the in-force business. The value of the in-force business is calculated by projecting the future surpluses and other net cash flows attributable to the shareholders arising from business written at the balance sheet date, using appropriate economic and actuarial assumptions, and discounting the result at a rate which reflects the shareholders' overall risk premium attributable to this business.

The assets held within the long-term assurance business funds are legally owned by the life assurance company, however, the shareholders will only benefit from ownership of these assets to the extent that surpluses are declared or from other cash flows attributable to the shareholders.

In order to reflect the different nature of these assets, they are classified separately on the consolidated balance sheet as 'Life assurance business net assets attributable to policyholders' while the corresponding liability to the policyholders is shown as 'Life assurance business liabilities to policyholders'. Investments held within the long-term assurance business funds are measured as follows: equity shares, debt securities and treasury bills held by unit-linked funds are measured at fair value in accordance with policy terms, investment property is measured at fair value based on valuations carried out by independent valuers at the balance sheet date and mortgages and other loans are measured at amortised cost less any provision for impairment.

### 22. Finance leases – The Group as a lessor

Finance leases, where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item to the lessee, are included in 'Loans and advances to customers'. A receivable is recognised over the lease period of an amount equal to the present value of the lease payments using the implicit rate of interest and including any guaranteed residual value. Finance income is recognised in 'Interest income' in the income statement.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 23. Property and equipment

Owner-occupied property is property held by the Group for use in the supply of services or for administrative purposes. Investment property is property held by the Group to earn rentals and/or for capital appreciation. If a property of the Group includes a portion that is owner-occupied and another portion that is held to earn rentals or for capital appreciation, the classification is based on whether or not these portions can be sold separately. Otherwise, the whole property is classified as owner-occupied property unless the owner-occupied portion is insignificant. The classification of property is reviewed on a regular basis to account for major changes in its use.

Owner-occupied property is originally measured at cost and subsequently measured at fair value less accumulated depreciation. Valuations are carried out periodically by independent qualified valuers on the basis of current market values. Depreciation is calculated on the revalued amount less the estimated residual value of buildings on a straight line basis over their estimated useful life of 35 to 67 years. On disposal of freehold land and buildings, the relevant 'Revaluation reserve' balance is transferred to 'Retained earnings'.

The cost of adapting/improving leasehold property is amortised over 5 years or over the period of the lease if this does not exceed 5 years.

Equipment is measured at cost less accumulated depreciation. Depreciation of equipment is calculated on a straight line basis over its estimated useful life of 5 to 10 years.

On the balance sheet date, the carrying value of equipment is reviewed for evidence of impairment when events or changes in circumstances indicate that the carrying value may not be recovered. Where the recoverable amount is less than the carrying amount, equipment is written down to its recoverable amount.

### 24. Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement. Valuations are carried out by independent qualified valuers.

The 'Property revaluation reserve' includes revaluation of property initially used by the Group for its operations and subsequently transferred to 'Investment property'.

The Group in its normal course of business, acquires properties in debt satisfaction, which are held either directly or by entities set up and controlled by the Group for the sole purpose of managing these properties. These properties are recognised in the Group's financial statements as investment properties, reflecting the substance of these transactions.

### 25. Stock of property held for sale

Stock of property held for sale is measured at the lower of cost or net realisable value.

### 26. Goodwill and other intangible assets

Goodwill represents the excess of the cost of the acquisition over the net fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. After initial recognition, goodwill is measured at cost less any impairment loss. Goodwill is reviewed for impairment on an annual basis or earlier when events or changes in circumstances indicate a possible impairment.

Licence fees, acquired insurance portfolio customer lists and software programmes are measured at cost less accumulated amortisation. Amortisation is calculated on a straight line basis over the estimated useful life of the assets which is 10 years for licence fees, 3 years for acquired insurance portfolio customer lists and 3 to 5 years for software programmes.

At each balance sheet date, licence fees, acquired insurance portfolio customer lists and software programmes are reviewed for impairment when events to changes to circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the licence fees, the acquired customer lists and the software programmes are written down to their recoverable amount.

# Bank of Cyprus Group

## Summary of Significant Accounting Policies

### 27. Share capital

Any difference between the issue price of share capital and the nominal value is recognised as share premium. The costs incurred attributable to the issue of share capital are deducted from equity.

### 28. Provisions for pending litigation or claims

Provisions for pending litigation or claims against the Group are made when: (a) there is a present obligation (legal or constructive) arising from past events, (b) the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

### 29. Financial guarantees

The Group issues financial guarantees to its customers, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities'. Subsequently, the Group's liability under each guarantee is measured at the higher of: (a) the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the income statement in 'Fee and commission income' in accordance with the terms of the guarantee, and (b) the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognised in the income statement in 'Provisions for impairment of loans and advances'. The balance of the liability for financial guarantees that remains is recognised in 'Fee and commission income' in the income statement when the guarantee is fulfilled, cancelled or expires.

### 30. Taxation

Taxation on income is provided in accordance with the fiscal regulations and rates which apply in the countries where the Group operates and is recognised as an expense in the period in which the income arises. Deferred tax is provided using the liability method.

Deferred tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the balance sheet date, which will give rise to taxable amounts in future periods. Deferred tax liabilities are not recognised for all taxable temporary differences associated with investments in subsidiaries and branches except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unutilised tax losses to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and carry-forward of unutilised tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise all or part of the deductible temporary differences or tax losses.

Deferred tax assets and liabilities are measured at the amount that is expected to be paid to or recovered from the tax authorities, after taking into account the tax rates and legislation that have been enacted or substantially enacted by the balance sheet date.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

### 31. Cash and cash equivalents

Cash and cash equivalents for the purposes of the cash flow statement consist of cash, non-obligatory balances with central banks, placements with banks and other securities that are readily convertible into known amounts of cash or are repayable within three months of the date of their acquisition.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 1. Corporate information

The consolidated financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2006 were authorised for issue by a resolution of the Board of Directors on 27 February 2007.

Bank of Cyprus Public Company Ltd is the holding company of the Bank of Cyprus Group. The principal activities of the Company and its subsidiary companies during the year continued to be the provision of banking and financial services, insurance business and property and hotel business.

The Company was incorporated as a limited liability company in 1930 and is a public company under the Cyprus Stock Exchange Laws and Regulations and the Income Tax Law of Cyprus.

### 2. Segmental analysis

The Group has three principal business segments: banking and financial services, life and general insurance business and property and hotel business.

The Group's business is mainly conducted in three geographic segments: (a) Cyprus, (b) Greece, and (c) other countries, principally the United Kingdom and Australia.

Generally, pricing between the different segments is based on market rates. The analysis by geographic segment is based on the location of the office recording the transaction.

Even though the activities of some of the Group companies are interdependent, the analyses by business activity and geographic segment are presented without adjustments for the cost of the net investment, the allocation of the benefit of earnings on the Group's capital and of Group head office expenses, as such adjustments are be subjective.

The primary reporting format is by business segment.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 2. Segmental analysis (continued)

#### Business segments

	Banking and financial services	Insurance business	Property and hotel business	Total
	C€000	C€000	C€000	C€000
<b>2006</b>				
<b>Turnover</b>	884.363	77.057	12.870	<b>974.290</b>
<b>Profit before tax</b>	202.608	17.366	4.549	<b>224.523</b>
Provisions for impairment of loans and advances	58.359	-	-	<b>58.359</b>
Profit before provisions	260.967	17.366	4.549	<b>282.882</b>
<b>Assets</b>	14.158.364	392.399	34.669	<b>14.585.432</b>
Inter-segment assets				<b>(22.457)</b>
Total assets				<b>14.562.975</b>
<b>Liabilities</b>	13.321.457	333.747	12.030	<b>13.667.234</b>
Inter-segment liabilities				<b>(8.880)</b>
Total liabilities				<b>13.658.354</b>
<b>Capital expenditure</b>	13.728	292	54	<b>14.074</b>
<b>Depreciation and amortisation</b>	17.833	743	154	<b>18.730</b>

# Bank of Cyprus Group

## Notes to the Financial Statements

### 2. Segmental analysis (continued)

#### Business segments (continued)

	Banking and financial services	Insurance business	Property and hotel business	Total
	C€000	C€000	C€000	C€000
<b>2005</b>				
<b>Turnover</b>	720.199	70.904	6.152	<b>797.255</b>
<b>Profit before tax</b>	73.544	14.080	2.934	<b>90.558</b>
Provisions for impairment of loans and advances	91.087	-	-	<b>91.087</b>
Profit before provisions	164.631	14.080	2.934	<b>181.645</b>
<b>Assets</b>	12.461.745	327.826	33.857	<b>12.823.428</b>
Inter-segment assets				<b>(21.239)</b>
Total assets				<b>12.802.189</b>
<b>Liabilities</b>	11.760.253	277.935	13.499	<b>12.051.687</b>
Inter-segment liabilities				<b>(11.149)</b>
Total liabilities				<b>12.040.538</b>
<b>Capital expenditure</b>	20.038	856	64	<b>20.958</b>
<b>Depreciation and amortisation</b>	18.649	769	181	<b>19.599</b>

# Bank of Cyprus Group

## Notes to the Financial Statements

### 2. Segmental analysis (continued)

#### Geographic segments

	Cyprus	Greece	Other countries	Total
<b>2006</b>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<b><i>C€000</i></b>
<b>Turnover</b>	659.382	292.656	67.241	<b>1.019.279</b>
Inter-segment turnover, mainly interest	(13.576)	(23.214)	(8.199)	<b>(44.989)</b>
Turnover with third parties	645.806	269.442	59.042	<b>974.290</b>
<b>Assets</b>	8.620.919	5.718.538	1.279.567	<b>15.619.024</b>
Inter-segment assets				<b>(1.056.049)</b>
Total assets				<b>14.562.975</b>
<b>Capital expenditure</b>	5.578	7.294	1.202	<b>14.074</b>

	Cyprus	Greece	Other countries	Total
<b>2005</b>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<b><i>C€000</i></b>
<b>Turnover</b>	505.331	256.652	60.863	<b>822.846</b>
Inter-segment turnover, mainly interest	(16.429)	(6.644)	(2.518)	<b>(25.591)</b>
Turnover with third parties	488.902	250.008	58.345	<b>797.255</b>
<b>Assets</b>	8.012.288	4.741.720	1.064.634	<b>13.818.642</b>
Inter-segment assets				<b>(1.016.453)</b>
Total assets				<b>12.802.189</b>
<b>Capital expenditure</b>	5.626	13.672	1.660	<b>20.958</b>

# Bank of Cyprus Group

## Notes to the Financial Statements

### 3. Interest income

	<b>2006</b>	2005
	<b>C£000</b>	C£000
Loans and advances to customers	<b>531.088</b>	455.153
Placements with banks and central banks	<b>128.664</b>	76.940
Treasury bills	<b>2.119</b>	4.210
Debt securities	<b>90.366</b>	69.002
	<b>752.237</b>	605.305

### 4. Interest expense

	<b>2006</b>	2005
	<b>C£000</b>	C£000
Customer deposits and other accounts	<b>353.916</b>	297.768
Amounts due to banks	<b>7.442</b>	4.625
Subordinated loan stock	<b>16.886</b>	16.772
Debt securities in issue	<b>15.364</b>	6.374
	<b>393.608</b>	325.539

### 5. Net gains on sale and change in fair value of financial instruments

	<b>2006</b>	2005
	<b>C£000</b>	C£000
Trading portfolio		
- equity shares	<b>1.487</b>	683
- debt securities	<b>(2.949)</b>	4.254
- derivatives	<b>8.765</b>	(1.216)
Investments at fair value through profit or loss		
- equity shares	<b>(3.453)</b>	(1.243)
- debt securities	<b>(153)</b>	20
Available-for-sale investments	<b>11.789</b>	3.009
Change in fair value of financial instruments designated as fair value hedges	<b>(507)</b>	515
	<b>14.979</b>	6.022

# Bank of Cyprus Group

## Notes to the Financial Statements

### 6. Income from insurance business

	<b>2006</b>	<i>2005</i>
	<b>C£000</b>	<i>C£000</i>
Life assurance business	<b>15.670</b>	14.465
General insurance business	<b>10.732</b>	8.910
	<b>26.402</b>	23.375

#### Analysis of income

	<b>2006</b>		<i>2005</i>	
	<b>Life assurance</b>	<b>General insurance</b>	Life assurance	General insurance
	<b>C£000</b>	<b>C£000</b>	<i>C£000</i>	<i>C£000</i>
Gross premiums	<b>46.027</b>	<b>31.030</b>	42.545	28.359
Reinsurance premiums	<b>(5.394)</b>	<b>(15.696)</b>	(4.601)	(13.580)
Income and gains from investments	<b>55.568</b>	<b>10</b>	39.001	18
Commissions from reinsurers and other income	<b>2.096</b>	<b>5.169</b>	1.965	3.900
	<b>98.297</b>	<b>20.513</b>	78.910	18.697
Gross payments to policyholders	<b>(27.268)</b>	<b>(15.351)</b>	(27.060)	(9.335)
Reinsurers' share of payments to policyholders	<b>2.048</b>	<b>9.092</b>	1.920	3.890
Gross adjustment to insurance contract liabilities	<b>(56.947)</b>	<b>(809)</b>	(37.187)	(8.477)
Reinsurers' share of change in insurance contract liabilities	<b>1.305</b>	<b>(823)</b>	895	6.688
Commissions paid to agents and other selling costs	<b>(6.321)</b>	<b>(1.890)</b>	(5.457)	(2.553)
	<b>11.114</b>	<b>10.732</b>	12.021	8.910
Change in the present value of future income from the in-force business before tax	<b>4.556</b>	-	2.444	-
<b>Income as per the income statement</b>	<b>15.670</b>	<b>10.732</b>	14.465	8.910

# Bank of Cyprus Group

## Notes to the Financial Statements

### 6. Income from insurance business (continued)

Other insurance income and expense items

The following insurance income and expense items were recognised in the relevant captions of the consolidated income statement:

	2006		2005	
	Life assurance	General insurance	Life assurance	General insurance
	C£000	C£000	C£000	C£000
Interest income	104	694	108	697
Net gains on sale and change in fair value of financial instruments and other income	366	768	372	181
Staff costs	(3.027)	(4.108)	(2.814)	(3.925)
Other operating expenses	(2.030)	(1.803)	(2.013)	(1.901)

### 7. Other income

	2006	2005
	C£000	C£000
Dividend income from equity shares	999	428
Profit on disposal of stock of property held for sale	4.302	3.058
Rental income from investment property	512	397
Other income	2.906	1.999
	<b>8.719</b>	<b>5.882</b>

### 8. Staff costs

	2006	2005
	C£000	C£000
Salaries	115.081	105.941
Employer's contributions	18.283	16.594
Retirement benefit plan costs	20.254	28.796
Cost of equity-settled share-based payments (Note 25)	2.265	-
	<b>155.883</b>	<b>151.331</b>

The number of persons employed by the Group as at 31 December 2006 was 6.192 (2005: 6.065).

# Bank of Cyprus Group

## Notes to the Financial Statements

### 8. Staff costs (continued)

#### Retirement benefit plan costs

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
<i>Plans:</i>		
- defined benefit	<b>17.245</b>	24.497
- defined contribution	<b>775</b>	618
- early retirement	<b>2.234</b>	3.681
	<b>20.254</b>	28.796

The Group operates several retirement benefit plans covering substantially all its employees. The majority of the plans are funded.

#### *Cyprus*

The main retirement plan for the Group's permanent employees in Cyprus covers 50,5% of total Group employees and is a defined benefit plan. The plan provides for a lump sum payment on retirement or death in service of up to 78 monthly salaries depending on the length of service. A small number of employees who do not participate in the main retirement plan, have the option to receive part or all of their retirement benefit entitlement by way of a pension for life.

The net present value of the obligations of the main retirement plan is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations were as follows:

	<b>2006</b>	<b>2005</b>
Discount rate	<b>4,75%</b>	5,00%
Expected rate of return on plan assets	<b>6,00%</b>	6,00%
Future salary increases	<b>6,50%</b>	6,50%

# Bank of Cyprus Group

## Notes to the Financial Statements

### 8. Staff costs (continued)

#### Retirement benefit plan costs (continued)

##### Greece

The Group's employees in Greece (42,0% of total Group employees) are covered by two defined benefit plans and one defined contribution plan.

All employees are entitled by law to a compensation in case of dismissal or a lump sum payment upon normal retirement, under a defined benefit plan, at rates specified in the legislation.

In addition, a number of employees recruited up to 31 December 2002 (18,1% of total Group personnel) participate in a defined benefit plan which provides for the payment of a lump sum on retirement of up to approximately 50 monthly salaries depending on the length of service.

The net present value of the obligations under the two defined benefit plans in Greece is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations were as follows:

	2006	2005
Discount rate	4,06%	3,73%
Expected rate of return on plan assets	4,06%	3,73%
Future salary increases	5,00%	5,00%

The third plan applies to employees recruited after 31 December 2002 and is a defined contribution plan.

##### United Kingdom

The Group's employees in the United Kingdom (3,3% of total Group employees) are covered by one defined benefit plan and one defined contribution plan.

A number of employees recruited up to 31 March 2003 (2,3% of total Group employees) participate in a defined benefit plan which provides for the payment of a pension for life, based on the final employee salary prior to retirement and the years of service.

The net present value of the obligations for the defined benefit plan in the United Kingdom is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations were as follows:

	2006	2005
Discount rate	4,90%	4,75%
Expected rate of return on plan assets	7,40%	7,40%
Future salary increases	5,00%	4,70%

The second plan applies to employees recruited after 31 March 2003 and is a defined contribution plan.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 8. Staff costs (continued)

#### Retirement benefit plan costs (continued)

##### Other countries

The terms of the retirement plans of employees in other countries reflect the economic conditions prevailing in these countries.

##### Analysis of the results of the actuarial valuations for the Group's defined benefit plans

The amounts recognised in the balance sheet are shown below:

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
Net present value of funded obligations	<b>298.530</b>	262.582
Fair value of plan assets	<b>(345.871)</b>	(193.628)
	<b>(47.341)</b>	68.954
Net present value of unfunded obligations	<b>2.424</b>	2.114
	<b>(44.917)</b>	71.068
Unrecognised actuarial losses	<b>(6.188)</b>	(69.903)
Unrecognised actuarial gains	<b>54.346</b>	2.242
Net liability of retirement benefit plans recognised in the balance sheet (Note 23)	<b>3.241</b>	3.407

The cumulative unrecognised actuarial gains were mainly the result of increased actual return on the plan assets in relation to the expected long-term rate of return used.

The movement in the net present value of obligations is set out below:

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
At 1 January	<b>264.696</b>	235.816
Current service cost	<b>14.285</b>	13.559
Interest expense on obligations	<b>13.291</b>	14.172
Actuarial losses	<b>14.240</b>	11.658
Benefits paid	<b>(6.926)</b>	(10.906)
Contributions by plan participants	<b>170</b>	135
Exchange differences from overseas plans	<b>1.198</b>	262
At 31 December	<b>300.954</b>	264.696

# Bank of Cyprus Group

## Notes to the Financial Statements

### 8. Staff costs (continued)

#### Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the Group's defined benefit plans (continued)

The changes in the fair value of plan assets are set out below:

	<b>2006</b>	2005
	<b>C£000</b>	C£000
At 1 January	<b>193.628</b>	129.509
Expected rate of return on plan assets	<b>11.856</b>	8.197
Actuarial gains	<b>128.698</b>	42.375
Employer contributions	<b>17.516</b>	23.767
Contributions by plan participants	<b>170</b>	135
Benefits paid	<b>(6.926)</b>	(10.906)
Exchange differences from overseas plans	<b>929</b>	551
At 31 December	<b>345.871</b>	193.628

The actual return on plan assets, excluding exchange differences, for 2006 was C£140.554 thousand (2005: C£50.572 thousand).

The major categories of plan assets as a percentage of total plan assets are as follows:

	<b>2006</b>	2005
Equity shares	<b>73%</b>	62%
Debt securities	<b>17%</b>	28%
Placements with banks	<b>10%</b>	10%

The assets held by the funded plans include securities issued by the Company, the fair value of which is:

	<b>2006</b>	2005
	<b>C£000</b>	C£000
Equity shares	<b>226.962</b>	96.760
Debt securities	<b>12.822</b>	12.822
	<b>239.784</b>	109.582

# Bank of Cyprus Group

## Notes to the Financial Statements

### 8. Staff costs (continued)

#### Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the Group's defined benefit plans (continued)

The components of the expense recognised in the income statement in relation to the defined benefit plans are as follows:

	<b>2006</b>	2005
	<b>C£000</b>	C£000
Current service cost	<b>14.285</b>	13.559
Interest expense on obligations	<b>13.291</b>	14.172
Expected return on plan assets	<b>(11.856)</b>	(8.197)
Recognised actuarial loss of prior years	<b>1.525</b>	4.963
	<b>17.245</b>	24.497

The Group expects to contribute C£15,5 million to the defined benefit plans during 2007.

Experience adjustments and their effect on the net present value of obligations and the fair value of plan assets are as follows:

	<b>2006</b>	2005
	<b>C£000</b>	C£000
Net present value of obligations	<b>(300.954)</b>	(264.696)
Fair value of plan assets	<b>345.871</b>	193.628
Surplus/(deficit)	<b>44.917</b>	(71.068)
Experience adjustments to obligations	<b>(4.348)</b>	2.116
Experience adjustments to plan assets	<b>128.698</b>	42.375

#### Medical plan costs

The Group operates a number of medical plans that cover almost all of its employees. All the plans are defined contribution plans except for the plan that covers the employees of the Group in Greece which is a defined benefit plan. Full provision is made for all liabilities in respect of these plans at the balance sheet date.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 9. Profit before tax

Profit before tax is stated after crediting/(charging) the following:

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
Gain from change in fair value of investment property	<b>412</b>	87
Profit on disposal of property and equipment	<b>315</b>	270
Operating lease rentals for land and buildings	<b>(8.736)</b>	(8.077)
Depreciation of property and equipment	<b>(13.912)</b>	(14.270)
Amortisation of intangible assets	<b>(4.818)</b>	(5.329)
Auditors' remuneration	<b>(453)</b>	(426)

The depreciation of property and equipment and the amortisation of intangible assets are included in 'Other operating expenses'.

### 10. Tax

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
Corporation tax		
- Cyprus	<b>17.062</b>	2.856
- overseas	<b>14.228</b>	11.673
Cyprus defence contribution	<b>325</b>	43
Deferred tax	<b>4.918</b>	3.814
Prior years' tax adjustments	<b>2.010</b>	(245)
One-off tax on reserves	<b>2.874</b>	-
	<b>41.417</b>	18.141

# Bank of Cyprus Group

## Notes to the Financial Statements

### 10. Tax (continued)

The reconciliation between the tax expense and the profit before tax as estimated using the current tax rates is set out below:

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
Profit before tax	<b>224.523</b>	90.558
Tax at the normal tax rates in Cyprus	<b>22.777</b>	9.089
Tax effect of:		
- expenses not deductible for tax purposes	<b>3.893</b>	863
- income not subject to tax	<b>(1.379)</b>	(787)
- difference between overseas tax rates and Cyprus tax rates	<b>11.242</b>	9.221
	<b>36.533</b>	18.386
Prior years' tax adjustments	<b>2.010</b>	(245)
One-off tax on reserves	<b>2.874</b>	-
	<b>41.417</b>	18.141

Corporation tax in Cyprus is calculated at the rate of 10% on taxable income. For life assurance business there is a minimum tax charge of 1,5% on gross premiums. Defence contribution is payable on rental income at a rate of 3% and on interest income from activities outside the ordinary course of business at a rate of 10%.

At 31 December 2006 the accumulated tax losses of subsidiary companies amounted to C£5.385 thousand (2005: C£6.659 thousand). Tax losses of 31 December 2005 were partly utilised against the taxable profit of year 2006. It is expected that the remaining tax losses will be utilised against future taxable profits.

The one-off tax on reserves relates to the tax imposed on the untaxed and special taxable reserves of the Company's branch in Greece as at 31 December 2005, following an amendment of the relevant legislation, at a rate of 15%. Following the imposition of this tax, these reserves are free for distribution without any additional tax charge.

In case of distribution of the undistributed reserves of the Company's overseas branches and subsidiaries, additional tax of around C£1,2 million (2005: C£5,6 million) would arise, for which no deferred tax liability has been recognised.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 10. Tax (continued)

#### Deferred tax asset

The deferred tax asset comprises of:

	<b>2006</b>	<i>2005</i>
	<b>C£000</b>	<i>C£000</i>
Difference between wear and tear allowances and depreciation	<b>231</b>	187
Property revaluation	<b>(116)</b>	(113)
Different tax treatment of finance leases	<b>1.288</b>	1.329
Unutilised tax losses carried forward	<b>300</b>	100
Other temporary differences	<b>1.017</b>	678
	<b>2.720</b>	2.181

#### Deferred tax liability

The deferred tax liability comprises of:

	<b>2006</b>	<i>2005</i>
	<b>C£000</b>	<i>C£000</i>
Difference between wear and tear allowances and depreciation	<b>4.096</b>	3.672
Property revaluation	<b>6.695</b>	6.836
Investment revaluation	<b>207</b>	1.156
Other temporary differences	<b>684</b>	(3.516)
	<b>11.682</b>	8.148

# Bank of Cyprus Group

## Notes to the Financial Statements

### 11. Basic and diluted earnings per share

	<b>2006</b>	<i>2005</i>
Profit after tax (C£ thousand)	<b>183.106</b>	72.417
Weighted average number of shares in issue during the year (thousand)	<b>548.729</b>	503.018
Basic earnings per share (cent)	<b>33,4</b>	14,4
Weighted average number of shares, adjusted for the exercise of share options (thousand)	<b>549.512</b>	503.018
Diluted earnings per share (cent)	<b>33,3</b>	14,4

The Group has issued Share Options to its employees, which constitute potentially dilutive ordinary shares. The diluted earnings per share are calculated after adjusting the weighted average number of shares in issue during the year, under the assumption that all potentially dilutive ordinary shares are converted into shares.

The weighted average number of shares for the year ended 31 December 2005 has been adjusted to reflect the bonus element of the shares issued under the Dividend Reinvestment Plan arising from the dividend payments in June and December 2006.

### 12. Cash, balances with central banks and placements with banks

	<b>2006</b>	<i>2005</i>
	<b>C£000</b>	<i>C£000</i>
Cash	<b>79.701</b>	61.857
Balances with central banks	<b>603.387</b>	549.824
	<b>683.088</b>	611.681
Placements with banks	<b>2.486.465</b>	2.578.300

Balances with central banks include obligatory deposits for liquidity purposes which amount to C£245.799 thousand (2005: C£353.376 thousand).

The analysis of the above by maturity date and currency is set out in Note 34. Placements and takings bear interest which is based on the interbank rate of the relevant term and currency.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 13. Investments at fair value through profit or loss

	Trading investments		Investments at fair value through profit or loss		Total	
	2006	2005	2006	2005	2006	2005
	C€000	C€000	C€000	C€000	C€000	C€000
<b>Debt securities</b>	<b>158.334</b>	72.366	<b>65.188</b>	856	<b>223.522</b>	73.222
<b>Equity shares</b>	<b>3.357</b>	2.186	<b>9.713</b>	13.348	<b>13.070</b>	15.534
<b>Mutual funds</b>	-	575	-	-	-	575
	<b>161.691</b>	75.127	<b>74.901</b>	14.204	<b>236.592</b>	89.331
<b>Debt securities</b>						
Cyprus government	<b>149.153</b>	71.805	<b>56.157</b>	552	<b>205.310</b>	72.357
Other governments	-	-	<b>501</b>	304	<b>501</b>	304
European banks and other organisations	<b>8.750</b>	-	<b>8.530</b>	-	<b>17.280</b>	-
Cyprus local authorities	<b>279</b>	278	-	-	<b>279</b>	278
Cyprus public companies	<b>152</b>	283	-	-	<b>152</b>	283
	<b>158.334</b>	72.366	<b>65.188</b>	856	<b>223.522</b>	73.222
Listed on the Cyprus Stock Exchange	<b>149.305</b>	72.088	<b>56.157</b>	552	<b>205.462</b>	72.640
Listed on European stock exchanges	<b>8.750</b>	-	<b>9.031</b>	304	<b>17.781</b>	304
Unlisted certificates of deposit, bank and local authority bonds	<b>279</b>	278	-	-	<b>279</b>	278
	<b>158.334</b>	72.366	<b>65.188</b>	856	<b>223.522</b>	73.222
<b>Equity shares</b>						
Listed on the Cyprus Stock Exchange	<b>3.357</b>	2.143	-	-	<b>3.357</b>	2.143
Unlisted	-	43	<b>9.713</b>	13.348	<b>9.713</b>	13.391
	<b>3.357</b>	2.186	<b>9.713</b>	13.348	<b>13.070</b>	15.534

# Bank of Cyprus Group

## Notes to the Financial Statements

### 14. Loans and advances to customers

	<b>2006</b>	<b>2005</b>
	<b>€000</b>	<b>€000</b>
Loans and advances to customers	<b>7.915.425</b>	6.638.611
Hire purchase and finance lease debtors (Note 15)	<b>911.438</b>	759.410
Gross loans and advances to customers	<b>8.826.863</b>	7.398.021
Provisions for impairment of loans and advances and suspended income	<b>(461.708)</b>	(413.810)
	<b>8.365.155</b>	6.984.211
<i>By economic activity</i>		
Trade	<b>1.247.174</b>	1.197.265
Manufacturing	<b>431.362</b>	390.674
Tourism	<b>748.785</b>	692.284
Property and construction	<b>1.273.124</b>	999.132
Personal and professional	<b>3.263.357</b>	2.673.800
Housing	<b>1.510.466</b>	1.051.356
Other sectors	<b>352.595</b>	393.510
	<b>8.826.863</b>	7.398.021
<i>By geographical area</i>		
Cyprus	<b>4.188.868</b>	3.548.101
Greece	<b>3.789.053</b>	3.140.873
United Kingdom	<b>680.525</b>	562.367
Australia	<b>168.417</b>	146.680
	<b>8.826.863</b>	7.398.021

# Bank of Cyprus Group

## Notes to the Financial Statements

### 14. Loans and advances to customers (continued)

#### Provisions for impairment of loans and advances and suspended income

	Provisions	Suspended income	Total
	C£000	C£000	C£000
<b>2006</b>			
At 1 January	292.478	121.332	<b>413.810</b>
Exchange adjustments	866	55	<b>921</b>
Applied in writing off advances	(34.270)	(10.795)	<b>(45.065)</b>
Suspended income for the year net of current year collections	-	46.675	<b>46.675</b>
Collection of prior years' suspended income	-	(18.561)	<b>(18.561)</b>
Collection of loans previously written off	5.569	-	<b>5.569</b>
Charge for the year	58.359	-	<b>58.359</b>
At 31 December	<b>323.002</b>	<b>138.706</b>	<b>461.708</b>
<b>2005</b>			
At 1 January	337.565	133.469	<b>471.034</b>
Exchange adjustments	(798)	(130)	<b>(928)</b>
Applied in writing off advances	(138.161)	(41.507)	<b>(179.668)</b>
Suspended income for the year net of current year collections	-	49.263	<b>49.263</b>
Collection of prior years' suspended income	-	(19.763)	<b>(19.763)</b>
Collection of loans previously written off	2.785	-	<b>2.785</b>
Charge for the year	91.087	-	<b>91.087</b>
At 31 December	<b>292.478</b>	<b>121.332</b>	<b>413.810</b>

Loans and advances to customers net of provisions and suspended income include loans and advances amounting to C£166.563 thousand (2005: C£293.782 thousand) for which income is suspended.

The fair value of loans and other advances to customers is approximately equal to the amount shown on the balance sheet, after deducting the provisions and suspended income.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 15. Hire purchase and finance lease debtors

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
Gross investment in hire purchase and finance lease contracts	<b>1.184.389</b>	915.274
Unearned finance income	<b>(272.951)</b>	(155.864)
Present value of hire purchase and finance lease payments	<b>911.438</b>	759.410
<i>Repayable</i>		
Within one year	<b>263.258</b>	167.866
Between one and five years	<b>546.382</b>	412.411
After five years	<b>374.749</b>	334.997
Gross investment in hire purchase and finance leases	<b>1.184.389</b>	915.274
<i>Repayable</i>		
Within one year	<b>216.803</b>	167.567
Between one and five years	<b>410.246</b>	334.670
After five years	<b>284.389</b>	257.173
Present value of hire purchase and finance lease payments	<b>911.438</b>	759.410

Under hire purchase contracts, the hirer: (a) pays a nominal fee at the end of the hire purchase term in exchange for the right to purchase the goods, (b) makes monthly payments which include hire purchase fees on all the amounts outstanding and (c) is responsible for any loss or damage incurred to the goods concerned.

Under finance lease contracts the item belongs to the Group and is leased for a fixed period. The lessee: (a) makes payments throughout the lease term covering the rentals and any other amounts that are payable under the terms of the contract, (b) undertakes to maintain the items in good condition and to compensate the Group for any damage or loss incurred and (c) upon expiry of the contract, can either return the items to the Group or continue to pay a nominal annual fee in exchange for the right to continue to use the items.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 16. Investments available-for-sale and held-to-maturity

	Available-for-sale		Held-to-maturity		Total	
	2006	2005	2006	2005	2006	2005
	€000	€000	€000	€000	€000	€000
<b>Treasury bills</b>	<b>41.563</b>	63.940	-	-	<b>41.563</b>	63.940
<b>Debt securities</b>	<b>2.029.509</b>	1.860.419	<b>2.594</b>	2.573	<b>2.032.103</b>	1.862.992
<b>Equity shares</b>	<b>37.022</b>	18.329	-	-	<b>37.022</b>	18.329
	<b>2.108.094</b>	1.942.688	<b>2.594</b>	2.573	<b>2.110.688</b>	1.945.261
<b>Treasury bills</b>						
Cyprus government	<b>41.563</b>	63.940	-	-	<b>41.563</b>	63.940
<b>Debt securities</b>						
Cyprus government	<b>295.428</b>	454.917	-	-	<b>295.428</b>	454.917
Other governments	<b>462.612</b>	400.758	-	-	<b>462.612</b>	400.758
Local authorities	<b>942</b>	984	-	-	<b>942</b>	984
Banks and other organisations	<b>1.269.465</b>	998.704	<b>2.594</b>	2.573	<b>1.272.059</b>	1.001.277
Cyprus public companies	<b>1.062</b>	5.056	-	-	<b>1.062</b>	5.056
	<b>2.029.509</b>	1.860.419	<b>2.594</b>	2.573	<b>2.032.103</b>	1.862.992
<i>Repayable</i>						
Within one year	<b>359.308</b>	211.261	-	-	<b>359.308</b>	211.261
Between one and five years	<b>1.164.562</b>	1.235.979	<b>2.594</b>	2.573	<b>1.167.156</b>	1.238.552
After five years	<b>505.639</b>	413.179	-	-	<b>505.639</b>	413.179
	<b>2.029.509</b>	1.860.419	<b>2.594</b>	2.573	<b>2.032.103</b>	1.862.992
Listed on the Cyprus Stock Exchange	<b>296.490</b>	448.388	-	-	<b>296.490</b>	448.388
Listed on European or US stock exchanges	<b>1.731.776</b>	1.410.718	<b>2.594</b>	2.573	<b>1.734.370</b>	1.413.291
Unlisted certificates of deposit, bank and local authority bonds	<b>1.243</b>	1.313	-	-	<b>1.243</b>	1.313
	<b>2.029.509</b>	1.860.419	<b>2.594</b>	2.573	<b>2.032.103</b>	1.862.992
<i>Geographical dispersion by country of issuer</i>						
Cyprus	<b>297.733</b>	461.286	-	-	<b>297.733</b>	461.286
Greece	<b>228.395</b>	195.977	-	-	<b>228.395</b>	195.977
United Kingdom and Ireland	<b>262.891</b>	251.967	<b>2.124</b>	2.315	<b>265.015</b>	254.282
France	<b>203.036</b>	172.496	-	-	<b>203.036</b>	172.496
Germany	<b>168.000</b>	111.397	<b>263</b>	258	<b>168.263</b>	111.655
Other European countries	<b>410.907</b>	323.607	<b>207</b>	-	<b>411.114</b>	323.607
United States of America and Canada	<b>319.901</b>	211.379	-	-	<b>319.901</b>	211.379
Australia	<b>116.834</b>	94.738	-	-	<b>116.834</b>	94.738
Other countries	<b>8.774</b>	4.271	-	-	<b>8.774</b>	4.271
Multinational organisations	<b>13.038</b>	33.301	-	-	<b>13.038</b>	33.301
	<b>2.029.509</b>	1.860.419	<b>2.594</b>	2.573	<b>2.032.103</b>	1.862.992
<b>Equity shares</b>						
Listed on the Cyprus Stock Exchange	<b>35.710</b>	17.089	-	-	<b>35.710</b>	17.089
Listed on European stock exchanges	<b>915</b>	741	-	-	<b>915</b>	741
Unlisted	<b>397</b>	499	-	-	<b>397</b>	499
	<b>37.022</b>	18.329	-	-	<b>37.022</b>	18.329

# Bank of Cyprus Group

## Notes to the Financial Statements

### 16. Investments available-for-sale and held-to-maturity *(continued)*

#### Treasury bills and debt securities

The movement in investments in treasury bills and debt securities is summarised below:

	Treasury bills	Debt securities	
	Available-for-sale	Available-for-sale	Held-to-maturity
<b>2006</b>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>
At 1 January	63.940	1.860.419	2.573
Exchange adjustments	-	(40.870)	48
Additions	94.278	985.340	-
Disposals	-	(539.842)	-
Redemptions	(117.410)	(209.263)	-
Losses from change in fair value	(175)	(22.251)	-
Amortisation of premiums/discounts	930	(4.024)	(27)
At 31 December	<b>41.563</b>	<b>2.029.509</b>	<b>2.594</b>

	Treasury bills		Debt securities	
	Available-for-sale	Held-to-maturity	Available-for-sale	Held-to-maturity
<b>2005</b>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January	34.335	102.941	1.369.795	168.693
Exchange adjustments	250	-	37.373	16.590
Additions	62.044	-	978.955	2.379
Disposals	(10.392)	-	(472.188)	-
Redemptions	(25.000)	(103.890)	(81.002)	(186.906)
Gains from change in fair value	478	-	31.635	-
Amortisation of premiums/discounts	2.225	949	(4.149)	1.817
At 31 December	<b>63.940</b>	<b>-</b>	<b>1.860.419</b>	<b>2.573</b>

Losses from change in fair value for 2006 include an amount of C€10.040 thousand (2005: gain of C€2.026 thousand) which relates to debt securities that are hedged items in fair value hedges, and is included in the income statement.

The fair value of held-to-maturity investments in debt securities at 31 December 2006 was C€2.568 thousand (2005: C€2.582 thousand).

# Bank of Cyprus Group

## Notes to the Financial Statements

### 16. Investments available-for-sale and held-to-maturity (continued)

#### Equity shares

The movement for the year is summarised below:

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
At 1 January	<b>18.329</b>	14.193
Exchange adjustments	<b>2</b>	(4)
Additions	<b>793</b>	224
Disposals	<b>(5.443)</b>	(1.156)
Gains from change in fair value	<b>23.341</b>	5.072
At 31 December	<b>37.022</b>	18.329

### 17. Property and equipment

	Property	Equipment	Total
<b>2006</b>	<b>C£000</b>	<b>C£000</b>	<b>C£000</b>
Net book value at 1 January	137.901	21.763	<b>159.664</b>
Exchange adjustments	499	117	<b>616</b>
Additions	3.897	6.005	<b>9.902</b>
Disposals and write-offs	(1.996)	(205)	<b>(2.201)</b>
Transfer to investment property	(256)	-	<b>(256)</b>
Depreciation charge for the year	(6.783)	(7.129)	<b>(13.912)</b>
Net book value at 31 December	<b>133.262</b>	<b>20.551</b>	<b>153.813</b>

<b>At 1 January 2006</b>			
Cost or valuation	169.464	75.513	<b>244.977</b>
Accumulated depreciation	(31.563)	(53.750)	<b>(85.313)</b>
Net book value	<b>137.901</b>	<b>21.763</b>	<b>159.664</b>

<b>At 31 December 2006</b>			
Cost or valuation	171.719	80.602	<b>252.321</b>
Accumulated depreciation	(38.457)	(60.051)	<b>(98.508)</b>
Net book value	<b>133.262</b>	<b>20.551</b>	<b>153.813</b>

# Bank of Cyprus Group

## Notes to the Financial Statements

### 17. Property and equipment (continued)

	Property	Equipment	Total
<b>2005</b>	<i>C£000</i>	<i>C£000</i>	<i>C£000</i>
Net book value at 1 January	133.888	23.643	<b>157.531</b>
Exchange adjustments	(409)	(12)	<b>(421)</b>
Additions	11.865	6.126	<b>17.991</b>
Disposals and write-offs	(903)	(264)	<b>(1.167)</b>
Depreciation charge for the year	(6.540)	(7.730)	<b>(14.270)</b>
Net book value at 31 December	<b>137.901</b>	<b>21.763</b>	<b>159.664</b>

<b>At 1 January 2005</b>			
Cost or valuation	159.029	80.988	<b>240.017</b>
Accumulated depreciation	(25.141)	(57.345)	<b>(82.486)</b>
Net book value	<b>133.888</b>	<b>23.643</b>	<b>157.531</b>

<b>At 31 December 2005</b>			
Cost or valuation	169.464	75.513	<b>244.977</b>
Accumulated depreciation	(31.563)	(53.750)	<b>(85.313)</b>
Net book value	<b>137.901</b>	<b>21.763</b>	<b>159.664</b>

The net book value of the Group's property comprises of:

	<b>2006</b>	2005
	<i>C£000</i>	<i>C£000</i>
Freehold property	<b>119.728</b>	122.450
Improvements on leasehold property	<b>13.534</b>	15.451
	<b>133.262</b>	137.901

Property includes land amounting to C£48.921 thousand (2005: C£50.081 thousand) for which no depreciation is charged. The latest estimate of market value by independent qualified valuers took place in 2003. The total revaluation surplus at 31 December 2006 amounted to C£41.908 thousand (2005: C£42.798 thousand) and is included in the revaluation reserves.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2006 would have amounted to C£79.060 thousand (2005: C£80.467 thousand).

There are no fixed charges in favour of third parties on the Group's property and equipment as at 31 December 2006 and 2005.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 18. Intangible assets

	Computer software	Licence fees	Insurance portfolio customer list	Goodwill on acquisition of subsidiary	Total
<b>2006</b>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<i>C€000</i>	<b><i>C€000</i></b>
Net book value at 1 January	7.426	2.436	360	705	<b>10.927</b>
Exchange adjustments	3	-	-	-	<b>3</b>
Additions	4.172	-	-	-	<b>4.172</b>
Amortisation charge for the year	(4.278)	(360)	(180)	-	<b>(4.818)</b>
Net book value at 31 December	<b>7.323</b>	<b>2.076</b>	<b>180</b>	<b>705</b>	<b>10.284</b>
<b>At 1 January 2006</b>					
Cost	44.125	3.607	540	705	<b>48.977</b>
Accumulated amortisation	(36.699)	(1.171)	(180)	-	<b>(38.050)</b>
Net book value	<b>7.426</b>	<b>2.436</b>	<b>360</b>	<b>705</b>	<b>10.927</b>
<b>At 31 December 2006</b>					
Cost	48.392	3.607	540	705	<b>53.244</b>
Accumulated amortisation	(41.069)	(1.531)	(360)	-	<b>(42.960)</b>
Net book value	<b>7.323</b>	<b>2.076</b>	<b>180</b>	<b>705</b>	<b>10.284</b>

The goodwill on acquisition of subsidiary company arose on the acquisition of the brokerage company Kyprou Securities SA.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 18. Intangible assets (continued)

	Computer software	Licence fees	Insurance portfolio customer list	Goodwill on acquisition of subsidiary	Total
<b>2005</b>	<i>C£000</i>	<i>C£000</i>	<i>C£000</i>	<i>C£000</i>	<b><i>C£000</i></b>
Net book value at 1 January	9.795	2.796	-	705	<b>13.296</b>
Exchange adjustments	(7)	-	-	-	<b>(7)</b>
Additions	2.427	-	540	-	<b>2.967</b>
Amortisation charge for the year	(4.789)	(360)	(180)	-	<b>(5.329)</b>
Net book value at 31 December	<b>7.426</b>	<b>2.436</b>	<b>360</b>	<b>705</b>	<b>10.927</b>
<b>At 1 January 2005</b>					
Cost	43.105	3.607	-	705	<b>47.417</b>
Accumulated amortisation	(33.310)	(811)	-	-	<b>(34.121)</b>
Net book value	<b>9.795</b>	<b>2.796</b>	<b>-</b>	<b>705</b>	<b>13.296</b>
<b>At 31 December 2005</b>					
Cost	44.125	3.607	540	705	<b>48.977</b>
Accumulated amortisation	(36.699)	(1.171)	(180)	-	<b>(38.050)</b>
Net book value	<b>7.426</b>	<b>2.436</b>	<b>360</b>	<b>705</b>	<b>10.927</b>

# Bank of Cyprus Group

## Notes to the Financial Statements

### 19. Other assets

	2006	2005
	C£000	C£000
Debtors	17.087	12.373
Stock of property held for sale	8.196	9.020
Investment property	22.409	20.418
Assets held for sale	-	1.217
Value of in-force life assurance policies (Note 20)	27.800	23.700
Taxes refundable	1.813	5.591
Deferred tax asset (Note 10)	2.720	2.181
Fair value of derivative financial instruments (Note 30)	21.277	8.229
Reinsurers' share of insurance contract liabilities	17.653	18.488
Accrued interest, fees and commissions	70.549	55.970
Prepaid expenses	7.076	5.614
Items in course of collection and other assets	33.153	28.207
	<b>229.733</b>	<b>191.008</b>

#### Investment property

The movement of investment property is summarised below:

	2006	2005
	C£000	C£000
At 1 January	20.418	3.328
Exchange adjustments	15	(25)
Transfer from assets held for sale	1.071	-
Transfer from property and equipment	256	-
Additions	6.244	17.923
Disposals	(6.007)	(895)
Gains from change in fair value	412	87
At 31 December	<b>22.409</b>	<b>20.418</b>

# Bank of Cyprus Group

## Notes to the Financial Statements

### 20. Life assurance business

The value placed on the long-term life assurance business of the subsidiary company EuroLife Ltd comprises of:

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
Net assets attributable to shareholders	<b>18.231</b>	16.873
Value of in-force life assurance policies	<b>27.800</b>	23.700
Embedded value	<b>46.031</b>	40.573

In determining the value of in-force policies, assumptions are made relating to future mortality, redemptions, level of administration and selling expenses and investment returns. The main assumptions used in determining the value of the in-force policies are:

	<b>2006</b>	<b>2005</b>
Discount rate (after tax)	<b>10,0%</b>	10,0%
Return on investments	<b>5,5%</b>	6,0%
Inflation	<b>5,0%</b>	5,0%

The movement of the embedded value is summarised below:

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
At 1 January	<b>40.573</b>	36.863
Profit after tax for the year	<b>5.783</b>	7.035
Increase in the value of in-force policies after tax	<b>4.100</b>	2.200
Dividend paid	<b>(4.500)</b>	(5.500)
Exchange differences and other adjustments recognised directly in equity	<b>75</b>	(25)
At 31 December	<b>46.031</b>	40.573

# Bank of Cyprus Group

## Notes to the Financial Statements

### 20. Life assurance business (continued)

Life assurance business net assets attributable to policyholders comprise of investments in:

	2006	2005
	C£000	C£000
Equity shares	140.182	101.825
Debt securities	78.936	92.668
Property	1.703	540
Mortgages and other loans	3.466	3.953
Bank deposits	61.838	33.019
	286.125	232.005
Other assets less liabilities	1.032	(199)
Life assurance business net assets attributable to policyholders	287.157	231.806

### 21. Customer deposits and other accounts

	2006	2005
	C£000	C£000
<i>By category</i>		
Demand	1.658.918	1.354.135
Savings	1.030.370	745.873
Time or notice	9.410.448	8.624.477
	12.099.736	10.724.485
<i>By geographical area</i>		
Cyprus	6.888.297	6.189.823
Greece	4.414.332	3.855.849
United Kingdom	660.810	562.870
Australia	136.297	115.943
	12.099.736	10.724.485

Demand and savings deposits are payable on demand and their carrying amount represents their fair value.

The fair value of time or notice deposits that bear a floating rate of interest is equivalent to their carrying amount. The fair value of deposits that bear a fixed rate of interest is based on the present value of their future cash flows, estimated using interest rates on new deposits which have the same remaining period to maturity, and is not materially different from their carrying amount, as the majority (84%) mature within three months from the balance sheet date (Note 34).

## 22. Debt securities in issue

	<i>Interest rate</i>	<i>2006</i>	<i>2005</i>
<b>Medium term Senior Debt</b>		<b>C£000</b>	<b>C£000</b>
€300 million 2006/2009	Three-month Euribor plus 0,33%	<b>173.304</b>	-
€300 million 2005/2008	Three-month Euribor plus 0,30%	<b>172.709</b>	170.038
€250 million 2003/2006	Three-month Euribor plus 0,35%	-	143.302
€5 million 2003/2006	Three-month Euribor plus 0,40%	-	2.867
€3 million 2003/2008	Three-month Euribor plus 0,45%	<b>1.735</b>	1.721
		<b>347.748</b>	317.928
<b>Short term Commercial Paper</b>			
- in Euro	-	<b>19.053</b>	-
- in U.S. Dollars	-	<b>66.688</b>	-
		<b>85.741</b>	-
Interest-free loan from the European Development Bank	-	<b>288</b>	288
		<b>433.777</b>	318.216

Debt securities in issue are not secured and the rights and claims of debt security holders rank pari passu with the claims of depositors and other creditors of the Company.

The fair value of the Group's debt securities in issue at 31 December 2006 was C£434.146 thousand (2005: C£318.584 thousand).

### Medium term Senior Bonds

The Company has established a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €1.500 million (2005: €1.500 million).

Under this Programme, the Company issued on 29 June 2006, €300 million Senior Debt 2006/2009. The Senior Debt has a three-year term, bears a floating rate of interest and was issued at the price of 99,942%. In the context of the EMTN programme, the Company issued on 9 June 2005, €300 million Senior Debt 2005/2008 which has a three-year term, bears a floating rate of interest and was issued at the price of 99,853%. The €3 million Senior Debt 2003/2008 was issued at par in 2003.

At 31 December 2006, the amount of the €300 million Senior Debt 2005/2008 outstanding was €299 million (2005: €297 million) as €1 million (2005: €3 million) of Debt was held by the Company for trading purposes.

The issues of €300 million 2006/2009 and €300 million 2005/2008 are listed on the Luxembourg Stock Exchange.

During 2006 the Company has redeemed, in accordance to their terms of issue, the €5 million Senior Debt 2003/2006 and the €250 million Senior Debt 2003/2006.

The three-month Euribor fluctuated during 2006 between 2,488% and 3,724% (2005: 2,102% - 2,495%).

# Bank of Cyprus Group

## Notes to the Financial Statements

### 22. Debt securities in issue *(continued)*

#### Short term Commercial Paper

In April 2006 the Company established a Euro Commercial Paper (ECP) Programme with an aggregate nominal amount up to €500 million. According to the terms of the Programme, the Commercial Paper is issued in various currencies at a discount and pays no interest. Each issue will have a maturity period up to 364 days and the Commercial Paper will not be listed on any stock exchange.

### 23. Other liabilities

	<b>2006</b>	<i>2005</i>
	<b>C£000</b>	<i>C£000</i>
General insurance business liabilities	<b>36.105</b>	35.082
Tax payable	<b>11.858</b>	4.638
Deferred tax liability (Note 10)	<b>11.682</b>	8.148
Fair value of derivative financial instruments (Note 30)	<b>10.152</b>	12.608
Net liability of retirement benefit plans (Note 8)	<b>3.241</b>	3.407
Provision for pending litigation or claims	<b>2.473</b>	2.025
Items in course of settlement	<b>32.438</b>	26.508
Financial guarantees	<b>2.008</b>	1.660
Accrued interest, fees and commissions	<b>55.044</b>	49.980
Other accrued expenses	<b>7.040</b>	2.950
Deferred income	<b>2.581</b>	1.195
Other	<b>81.729</b>	75.500
	<b>256.351</b>	223.701

#### Provision for pending litigation or claims

The movement for the year in the provision for pending litigation or claims is as follows:

	<b>2006</b>	<i>2005</i>
	<b>C£000</b>	<i>C£000</i>
At 1 January	<b>2.025</b>	2.148
Increase/(decrease) of provision for the year	<b>445</b>	(126)
Exchange adjustments	<b>3</b>	3
At 31 December	<b>2.473</b>	2.025

The provision for pending litigation or claims does not include insurance claims arising in the ordinary course of business of the Group's insurance subsidiaries.

**24. Subordinated loan stock**

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
Subordinated Bonds 2006/2011 in Euro (€275 million)	-	157.625
Subordinated Bonds 2008/2013 in Euro (€200 million)	<b>114.503</b>	114.422
Subordinated Bonds 2011/2016 in Euro (€200 million)	<b>111.308</b>	-
Capital Securities Series A (C£65 million)	<b>64.311</b>	62.781
Capital Securities Series B (C£30 million)	<b>29.883</b>	29.753
	<b>320.005</b>	364.581

The subordinated loan stock issued by the Company is not secured and the rights and claims of loan stockholders are subordinated to the claims of depositors and other creditors of the Company, but have priority over those of the shareholders of the Company.

The Subordinated Bonds are classified as Tier 2 Capital and the Capital Securities as Tier 1 Capital for capital adequacy purposes.

The fair value of Group's subordinated loan stock at 31 December 2006 was C£322.010 thousand (2005: C£366.759 thousand).

**Subordinated Bonds**

The Subordinated Bonds 2006/2011 had a floating rate of interest and maturity in June 2011. They were issued in Euro (€275 million) in June 2001. The Company had the option to redeem the Subordinated Bonds in whole on or after 20 June 2006. The Company has redeemed the Bonds on 20 June 2006. The interest rate of the Bonds was set at the three-month Euribor plus 1,20% until June 2006 and plus 2,40% thereafter. The Bonds were listed on the Luxembourg Stock Exchange.

The Company has established a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €1.500 million (2005: €1.500 million).

Under this Programme, the Company issued in October 2003, €200 million Subordinated Bonds 2008/2013 in Euro, bearing floating rate of interest and maturing in October 2013. The Company has the option to call the Bonds during or after October 2008. The interest rate of the Bonds was set at the three-month Euribor plus 1,00% until October 2008 and will increase to plus 2,20% thereafter. The issue price of the Bonds was 99,766%. The Bonds are listed on the Luxembourg Stock Exchange. At 31 December 2006, the amount of €200 million Subordinated Bonds 2008/2013 outstanding amounted to €198.350 thousand (2005: €200 million) as €1.650 thousand (2005: nil) were held by the Company for trading purposes.

Also in the context of the EMTN Programme, the Company issued in May 2006 €200 million floating rate Subordinated Bonds 2011/2016 in Euro maturing in May 2016. The Company has the option to call the Bonds in whole during or after May 2011. The interest rate of the Bonds was set at the three-month Euribor plus 0,60% until May 2011 and will increase to plus 1,60% thereafter. The issue price of the Bonds was 99,861%. The Bonds are listed on the Luxembourg Stock Exchange. At 31 December 2006, the amount of the €200 million Subordinated Bonds 2011/2016 outstanding amounted to €193 million as €7 million were held by the Company for trading purposes.

The three-month Euribor fluctuated during 2006 between 2,488% and 3,724% (2005: 2,102% - 2,495%).

# Bank of Cyprus Group

## Notes to the Financial Statements

### 24. Subordinated loan stock (continued)

#### Capital Securities

Capital Securities Series A amounting to C£65 million and Series B amounting to C£30 million were issued in Cyprus pounds in February 2003 and March 2004 respectively, and were offered in Cyprus. The Capital Securities have no maturity date, but may be redeemed in whole at the option of the Company, subject to the prior consent of the Central Bank of Cyprus, at their nominal amount together with any outstanding interest payments, five years after their issue date or on any interest payment date thereafter. The Capital Securities bear a floating interest rate, which is revised every three months. The interest rate is equal to the base rate of the Company at the beginning of each three-month period plus 1,00%. Interest is payable quarterly. The Capital Securities are listed on the Cyprus Stock Exchange.

At 31 December 2006, the Capital Securities Series A and Series B outstanding amounted to C£64.311 thousand and C£29.883 thousand respectively (2005: C£62.781 thousand and C£29.753 thousand respectively) as C£689 thousand of Capital Securities Series A and C£117 thousand of Capital Securities Series B (2005: C£2.219 thousand and C£247 thousand respectively) were held by the Company for trading purposes.

The Company's base rate fluctuated during 2006 between 4,25% and 4,50% (2005: 4,25% - 5,50%).

### 25. Share capital

	2006		2005	
	Shares (thousand)	C£000	Shares (thousand)	C£000
<i>Authorised</i>				
Shares of 50 cent each	<b>600.000</b>	<b>300.000</b>	600.000	300.000
<i>Issued and fully paid</i>				
At 1 January	<b>545.316</b>	<b>272.658</b>	464.771	232.385
Issue of shares	-	-	77.902	38.951
Dividend reinvestment	<b>6.519</b>	<b>3.259</b>	2.643	1.322
Exercise of share options	<b>2.004</b>	<b>1.002</b>	-	-
At 31 December	<b>553.839</b>	<b>276.919</b>	545.316	272.658

The Company has in force a Dividend Reinvestment Plan under which all shareholders have the option to reinvest all or part of their dividend in shares of the Company at a discount of 10% on the market value of the shares. The reinvestment price for the dividend paid on 27 June 2006 was set at C£3,49 per share and for the interim dividend paid on 11 December 2006 it was set at C£5,07 per share. As a result of the dividend reinvestment, 6.519.027 (2005: 2.642.800) shares were issued and the Company's share capital and share premium increased by C£3.259 thousand (2005: C£1.322 thousand) and C£24.434 thousand (2005: C£2.907 thousand) respectively.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 25. Share capital (continued)

In December 2005 the Company increased its share capital by 77.902 thousand shares paid in cash, through a rights issue at the price of C£1,40 per share. The total capital raised amounted to C£109.063 thousand, of which C£38.951 thousand represents share capital and the remaining C£70.112 thousand represents share premium.

#### Share-based payments – Share Options

The Company has granted Share Options 2001/2007 to all Group employees who were in service at 31 December 2000. The total number of Share Options granted was 3.216.700 and they give the holder the right to buy one share of the Company at the price of C£3,26 per share (as adjusted after the rights issue in December 2005). The Share Options can be exercised by their holders from 31 January 2004 to 31 December 2007. The Share Options 2001/2007 are outside the scope of IFRS 2 'Share-based payments'.

During the year 2006, 2.004.493 (2005: nil) Share Options 2001/2007 were exercised by the Group employees and consequently the Company's share capital and share premium increased by C£1.002 thousand and C£5.532 thousand respectively.

The Company has also granted Share Options 2006/2007 to all permanent employees in Cyprus and Greece who were in service at 30 September 2006 (grant date) and will remain in service until 31 March 2007 (vesting date). The number of Share Options 2006/2007 issued was 4.283.300. The exercise price of the Share Options has been set at C£3,70 per Option and the exercise period is from 31 March 2007 to 30 June 2007.

The movement in the number of Share Options is summarised below:

	<b>2006</b>	<b>2005</b>
	<b>Number of share options (thousand)</b>	<b>Number of share options (thousand)</b>
At 1 January	<b>3.217</b>	3.217
Share Options granted	<b>4.283</b>	-
Share Options exercised	<b>(2.004)</b>	-
Share Options forfeited due to staff departures from the Group	<b>(370)</b>	-
At 31 December	<b>5.126</b>	3.217
Share Options that can be exercised on 31 December	<b>876</b>	3.217

The fair value of Share Options 2006/2007 was measured at the grant date, using the Black-Scholes-Merton valuation model and amounts to C£1,06 per Share Option. The main variables taken into account are the share price (C£4,56 on 30 September 2006), the exercise price (C£3,70), the dividend yield (2,5%), the risk-free interest rate (4%), the duration of the Share Options and the expected volatility of the share price (13% on an annual basis, calculated using the historic volatility of the share).

# Bank of Cyprus Group

## Notes to the Financial Statements

### 26. Dividends

The Board of Directors proposes the payment of a final dividend of 10 cent per share, amounting to C£55.384 thousand which will be submitted for approval at the Annual General Meeting of the shareholders scheduled for 6 June 2007. The proposed ex-dividend date is 11 June 2007. As a result, registered shareholders on 8 June 2007 will be eligible to receive the dividend. The proposed dividend is not recognised as a liability until its approval by the Annual General Meeting and its subsequent payment to shareholders.

On 3 November 2006, the Board of Directors decided the payment of an interim dividend for 2006 of 7 cent (2005: nil) per share, amounting to C£38.501 thousand which was paid to shareholders on 11 December 2006 and was recognised during the year.

The dividend for 2005 of 7 cent per share, amounting to C£38.211 thousand was approved by the Annual General Meeting of the shareholders on 30 May 2006 and was paid on 27 June 2006.

### 27. Revaluation reserves, retained earnings and other reserves

#### Revaluation reserves and other reserves

	<b>2006</b>	<i>2005</i>
	<b>C£000</b>	<i>C£000</i>
Property revaluation reserve	<b>36.016</b>	36.656
Revaluation reserve of available-for-sale investments		
- treasury bills and debt securities	<b>5.355</b>	26.565
- equity shares	<b>28.199</b>	6.815
Cash flow hedge reserve	<b>(535)</b>	-
Life assurance in-force business reserve	<b>27.800</b>	23.700
Total revaluation reserves	<b>96.835</b>	93.736
Capital reserve	<b>2.183</b>	2.183
	<b>99.018</b>	95.919

The movement of the revaluation reserves is set out below:

#### Property revaluation reserve

	<b>2006</b>	<i>2005</i>
	<b>C£000</b>	<i>C£000</i>
At 1 January	<b>36.656</b>	36.276
Transfer of realised profits on disposal of property to retained earnings	<b>(798)</b>	(148)
Deferred tax	<b>158</b>	528
At 31 December	<b>36.016</b>	36.656

# Bank of Cyprus Group

## Notes to the Financial Statements

### 27. Revaluation reserves, retained earnings and other reserves *(continued)*

#### Revaluation reserve of available-for-sale investments

##### *Treasury bills and debt securities*

	<b>2006</b>	<i>2005</i>
	<b>C£000</b>	<i>C£000</i>
At 1 January	<b>26.565</b>	(1.185)
(Losses)/gains from change in fair value	<b>(12.386)</b>	30.087
Transfer to the income statement on redemption/sale	<b>(10.087)</b>	(4.020)
Deferred tax	<b>1.263</b>	1.683
At 31 December	<b>5.355</b>	26.565

##### *Equity shares*

	<b>2006</b>	<i>2005</i>
	<b>C£000</b>	<i>C£000</i>
At 1 January	<b>6.815</b>	1.783
Gains from change in fair value	<b>23.341</b>	5.072
Transfer to the income statement on sale	<b>(1.957)</b>	(40)
At 31 December	<b>28.199</b>	6.815

#### Cash flow hedge reserve

	<b>2006</b>	<i>2005</i>
	<b>C£000</b>	<i>C£000</i>
At 1 January	-	(3.639)
Losses from change in fair value	<b>(599)</b>	-
Transfer to the income statement on termination	-	4.043
Deferred tax	<b>64</b>	(404)
At 31 December	<b>(535)</b>	-

# Bank of Cyprus Group

## Notes to the Financial Statements

### 27. Revaluation reserves, retained earnings and other reserves *(continued)*

#### Life assurance in-force business reserve

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
At 1 January	<b>23.700</b>	21.500
Transfer from retained earnings after tax	<b>4.100</b>	2.200
At 31 December	<b>27.800</b>	23.700

#### Capital reserve

The capital reserve resulted from the capitalisation of the profits of subsidiary companies and the joint venture.

#### Retained earnings

Retained earnings is the only distributable reserve.

As from 1 January 2003, companies which do not distribute at least 70% of their profits after tax, as defined by the Special Defence Contribution for the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 15% will be payable on such deemed dividend distribution to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are tax residents of Cyprus. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year. This special defence contribution is paid by the Company on account of the shareholders.

For fiscal year 2004, there is no special defence contribution on deemed distribution. For fiscal year 2003, the special defence contribution on deemed distribution amounted to C£884 thousand and was charged to retained earnings.

### 28. Fiduciary transactions

The Group offers fund management services that result in the holding or placing of financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management are not included in the balance sheet of the Group unless they are placed with the Group. The total assets under management at 31 December 2006 amounted to C£587 million (2005: C£478 million).

# Bank of Cyprus Group

## Notes to the Financial Statements

### 29. Contingent liabilities and commitments

#### Financial instruments

The following table summarises the nominal principal amount of contingent liabilities and commitments as at 31 December:

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
<i>Contingent liabilities</i>		
Acceptances and endorsements	<b>27.994</b>	33.864
Guarantees	<b>829.279</b>	736.945
	<b>857.273</b>	770.809
<i>Commitments</i>		
Documentary credits	<b>37.252</b>	49.145
Undrawn formal standby facilities, credit lines and other commitments to lend	<b>1.555.080</b>	1.340.572
	<b>1.592.332</b>	1.389.717

Documentary credits and guarantees are usually offset by corresponding obligations of third parties.

Commitments to lend are agreements to grant a loan to a customer in the future. Such commitments are made for a fixed period of time and are cancellable by the Group subject to notice requirements. Most commitments expire without being fully drawn upon.

#### Capital commitments

Commitments for contracted capital expenditure as at 31 December 2006 amount to C£4.956 thousand (2005: C£6.507 thousand).

#### Litigation

The Group's provision for pending litigation or claims is set out in Note 23. There are no other significant pending litigation, claims or assessments against the Group, the outcome of which would have a material effect on the Group's financial position and operations.

An application for the payment by the Company of an amount up to \$77 million (C£34 million) plus interest since May 2001 is pending before the courts of New York, relating to balances that certain customers allegedly maintain with the Company. This application, which relates to executing a judgment of the courts against third parties, does not create any legal obligation for the Company if no accounts exist in the names of third parties/customers. The Company, pursuant to consultation and advice from the Group's legal counsel in New York, expects that the final outcome of the above proceedings will not have a material effect on the Group's financial position.

On 27 July 2005, the Securities and Exchange Commission of Cyprus announced that it has carried out an investigation into a possible breach by the Company of the provisions of articles 67 and 68 of the Cyprus Stock Exchange Law, with respect to the issue of shares in Greece in October 2000, and that a report on its findings will be prepared and sent to the Attorney General of the Republic of Cyprus.

### 29. Contingent liabilities and commitments *(continued)*

#### Litigation *(continued)*

In September 2006 a law suit against the Company has been served by the 'Trustees of the AremisSoft Corporation Liquidating Trust' before the New York district court, claiming that the Company, in breach of its obligations to AremisSoft, has not taken all the necessary measures to prevent the principal shareholder of AremisSoft to execute transfers leading to the appropriation by him of significant sums belonging to AremisSoft. The 'Trustees of the AremisSoft Corporation Liquidating Trust' request the issuance of a court order for an amount of at least \$50 million (C£22 million). The Company denies the content of the law suit and all demands contained therein. Therefore, the Group does not expect to have any material financial impact as a result of the law suit.

### 30. Derivative financial instruments and hedge accounting

The use of derivatives and their sale to customers as risk management products is an integral part of the Group's trading activities.

These financial instruments are also used to manage the Group's own exposure to fluctuations in interest rates, exchange rates and equity price indices relating to products sold to customers.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency usually on a specified future date at an agreed rate.

Currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.

Interest rate, currency and equity options provide the buyer with the right but not the obligation, to either purchase or sell the underlying values at a specified price or level on or before a specified date.

Interest rate futures are contractual agreements for the purchase or sale of specific financial instruments at a specified price and date in the future. Futures contracts are transacted in standardised amounts on regulated exchanges.

Interest rate caps/floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the balance sheet date. The exposure arising from these transactions is managed as part of the Group's credit risk management process for credit facilities granted to customers and financial institutions.

The nominal amounts of certain types of derivative financial instruments provide a basis for comparison with other instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, do not indicate the Group's exposure to credit or market risks.

### **30. Derivative financial instruments and hedge accounting** *(continued)*

After initial recognition, the fair value of the derivatives becomes positive (asset) or negative (liability) as a result of fluctuations in market interest rates, foreign exchange rates or equity price indices, in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

Changes in the fair value of trading derivatives are recognised in the income statement.

The Group applies either fair value or cash flow hedge accounting using derivatives when the required criteria for hedge accounting are met. The Group also uses derivatives for economic hedging (hedging the changes in interest rates or exchange rates) which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from changes in their fair value are recognised in the income statement.

Changes in the fair value of derivatives designated as fair value hedges, are recognised in the income statement.

The effective portion of the gains or losses from changes in the fair value of derivatives designated as cash flow hedges, is recognised in equity and the ineffective portion is recognised in the income statement.

#### **Fair value hedges**

The Group uses interest rate swaps with a nominal amount of C£417.800 thousand (2005: C£280.614 thousand) to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate bonds classified as available-for-sale and of fixed interest rate loans and deposits. The fair value of these derivatives at 31 December 2006 was C£8.711 thousand (gain) (2005: C£4.153 thousand (loss)) and the change in the fair value of the relevant hedged items was C£8.879 thousand (loss) (2005: C£4.541 thousand (gain)).

#### **Cash flow hedges**

The Group uses interest rate swaps with a nominal amount of C£115.332 thousand to hedge the future cash flows of floating rate bonds. The net fair value of these derivatives at 31 December 2006 was C£496 thousand (loss). As at 31 December 2005 no interest rate swaps were designated as cash flow hedges.

#### **Hedges of net investment in foreign entities**

The Group hedges the currency risk arising on the retranslation into Cyprus pounds of the net assets of its overseas subsidiaries and branches. Liabilities amounting to C£158.130 thousand (2005: C£139.509 thousand) have been designated as hedges and have given rise to a loss of C£2.080 thousand (2005: C£1.974 thousand) which was recognised in the 'Exchange adjustments reserve', against the profit/loss that arose on the retranslation of the net assets to Cyprus pounds.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 30. Derivative financial instruments and hedge accounting *(continued)*

The nominal amounts and fair values of the derivative financial instruments are set out below:

	2006			2005		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	C£000	C£000	C£000	C£000	C£000	C£000
<i>Trading derivatives</i>						
Forward exchange rate contracts	152.881	3.456	1.895	154.393	1.823	2.465
Currency swaps	541.621	2.344	5.377	320.825	2.462	2.095
Interest rate swaps	537.499	5.592	1.205	446.352	1.441	1.434
Currency options	-	-	-	3.876	42	-
Interest rate futures	578	-	2	-	-	-
Equity options	3.315	165	165	12.408	585	585
Interest rate caps/floors	6.029	52	55	-	-	-
	1.241.923	11.609	8.699	937.854	6.353	6.579
<i>Derivatives qualifying for hedge accounting</i>						
Fair value hedges - interest rate swaps	417.800	9.663	952	280.614	1.876	6.029
Cash flow hedges - interest rate swaps	115.332	5	501	-	-	-
	533.132	9.668	1.453	280.614	1.876	6.029
<b>Total</b>	<b>1.775.055</b>	<b>21.277</b>	<b>10.152</b>	<b>1.218.468</b>	<b>8.229</b>	<b>12.608</b>

# Bank of Cyprus Group

## Notes to the Financial Statements

### 31. Net cash flow from operating activities

	2006	2005
	C£000	C£000
Profit before tax	224.523	90.558
<i>Adjustments for</i>		
Provisions for impairment of loans and advances	58.359	91.087
Depreciation of property and equipment	13.912	14.270
Amortisation of intangible assets	4.818	5.329
Cost of share-based payments	2.265	-
Amortisation of discounts/premiums	3.128	(622)
Profit on disposal of property and equipment and write-offs of intangible assets	(315)	(270)
Interest on treasury bills	(2.119)	(4.210)
Interest on debt securities	(90.366)	(69.002)
Dividend income from equity shares	(999)	(428)
Profit on sale of investments in equity shares	(7.194)	(125)
Profit on sale of investments in debt securities	(4.595)	(2.884)
Losses/(gains) from change in fair value of available-for-sale debt securities designated as fair value hedges	10.040	(2.026)
Interest on subordinated loan stock	16.886	16.772
	<b>228.343</b>	138.449
<i>Increase in</i>		
Amounts due to banks	83.579	46.369
Obligatory balances with central banks	-	(10.108)
Customer deposits and other accounts	1.371.675	2.062.715
General insurance business liabilities	1.023	9.961
Value of in-force life assurance policies	(4.100)	(2.200)
Loans and advances to customers	(1.440.223)	(1.113.041)
Other assets	(21.315)	(22.369)
Prepayments and accrued income	(16.041)	-
Placements with banks	(52.057)	(50.012)
Other liabilities	9.734	27.899
Accruals and deferred income	10.540	-
Debt securities in issue	116.217	171.449
Investments at fair value through profit or loss	(147.261)	-
<i>Decrease in</i>		
Obligatory balances with central banks	107.577	-
Investments at fair value through profit or loss	-	6.155
Prepayments and accrued income	-	33.144
Accruals and deferred income	-	(12.928)
Subordinated loan stock held for trading	(3.357)	(201)
	<b>244.334</b>	1.285.282
Tax paid	(25.564)	(20.528)
<b>Net cash flows from operating activities</b>	<b>218.770</b>	<b>1.264.754</b>

# Bank of Cyprus Group

## Notes to the Financial Statements

### 32. Cash and cash equivalents

Cash and cash equivalents comprise of:

	<b>2006</b>	2005
	<b>C£000</b>	C£000
Cash and non obligatory balances with central banks (Note 12)	<b>437.289</b>	258.305
Placements with banks repayable within three months	<b>2.377.906</b>	2.521.798
	<b>2.815.195</b>	2.780.103

### 33. Operating leases

The total future minimum lease payments under non-cancellable operating leases at 31 December, are stated below:

	<b>2006</b>	2005
	<b>C£000</b>	C£000
Within one year	<b>6.538</b>	1.381
Between one and five years	<b>15.226</b>	4.857
After five years	<b>2.941</b>	6.822
	<b>24.705</b>	13.060

The above relate mainly to leases for the Group's branches and offices.

The Group has the option to buy a building for C£3,3 million that was leased as at 31 December 2006. The option can be exercised between 1 July and 15 November 2007.

### 34. Risk management

In the ordinary course of business, the Group is exposed to a variety of risks, the most important of which are credit risk, exchange rate risk, interest rate risk and liquidity risk.

These risks are monitored through various control mechanisms across the Group in order to prevent undue risk concentrations and to price facilities and products on a risk adjusted basis.

#### Credit risk

Credit risk is the risk that customers will be unable to repay their loans and advances and will fail to perform under their contractual commitments.

The Group Credit Risk Management Unit defines the Group's credit dispensing policies and monitors compliance with the related credit sanctioning procedures and controls at each sector (consumer, business and corporate) and at each geographical area where the Group operates. Credit exposures from related accounts are aggregated and monitored on a consolidated basis.

### 34. Risk management *(continued)*

#### **Credit risk** *(continued)*

The Group Credit Risk Management Unit sets targets and limits for the composition and quality of the loans and advances portfolio and monitors compliance with them. The assessment of the quality of the portfolio is carried out using credit rating and credit scoring systems to determine the creditworthiness of customers.

Portfolio monitoring is carried out on the basis of customers' creditworthiness, sector of the economy and country of operation. Regular audits are carried out by a specialist unit of the Group Internal Audit Division.

The credit risk exposure of the Group is diversified both geographically and across the various sectors of the economy (Note 14).

Group policy regarding the definition of loans and advances for which income is suspended and the determination of provisions for impairment is set out in the summary of significant accounting policies.

#### **Market risk**

Market risk arises from adverse movements in exchange rates, interest rates, equity shares and other securities prices. Market risk is actively managed both at an individual business unit level and centrally at Group level by the Group Market Risk Management Unit to ensure compliance with market risk limits.

The Group Asset/Liability Management Committee has defined specific strategies and has set strict open position limits for managing currency and interest rate risks.

The position of the Group regarding interest rate risk and currency risk is analysed below.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 34. Risk management (continued)

#### Interest rate risk

Analysis of assets and liabilities as at 31 December 2006, according to their contractual repricing or maturity date:

	Up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Non-interest bearing	Total
	€000	€000	€000	€000	€000	€000	€000
<b>2006</b>							
<b>Assets</b>							
Cash and balances with central banks	551.456	51.683	248	-	-	79.701	<b>683.088</b>
Placements with banks	2.355.587	22.005	53.557	50.000	-	5.316	<b>2.486.465</b>
Investments at fair value through profit or loss	2.483	883	152	138.173	81.831	13.070	<b>236.592</b>
Loans and advances to customers	6.453.362	828.012	516.301	532.519	34.961	-	<b>8.365.155</b>
Investments available-for-sale and held-to-maturity	275.046	636.865	279.158	507.994	374.603	37.022	<b>2.110.688</b>
Other assets	-	-	-	-	-	393.830	<b>393.830</b>
<b>Total assets</b>	<b>9.637.934</b>	<b>1.539.448</b>	<b>849.416</b>	<b>1.228.686</b>	<b>491.395</b>	<b>528.939</b>	<b>14.275.818</b>
<b>Liabilities</b>							
Amounts due to banks	107.647	113.733	9.882	30.066	-	-	<b>261.328</b>
Customer deposits and other accounts	8.372.389	1.123.321	1.687.097	107.741	-	809.188	<b>12.099.736</b>
Debt securities in issue	51.008	381.185	1.296	-	-	288	<b>433.777</b>
Other liabilities	-	-	-	-	-	256.351	<b>256.351</b>
	8.531.044	1.618.239	1.698.275	137.807	-	1.065.827	<b>13.051.192</b>
Subordinated loan stock	114.503	205.502	-	-	-	-	<b>320.005</b>
<b>Total liabilities</b>	<b>8.645.547</b>	<b>1.823.741</b>	<b>1.698.275</b>	<b>137.807</b>	<b>-</b>	<b>1.065.827</b>	<b>13.371.197</b>
<b>Total position</b>	<b>992.387</b>	<b>(284.293)</b>	<b>(848.859)</b>	<b>1.090.879</b>	<b>491.395</b>	<b>(536.888)</b>	<b>904.621</b>
<b>Nominal amount of interest rate derivatives</b>	<b>(395)</b>	<b>78.875</b>	<b>162.005</b>	<b>187.780</b>	<b>(428.251)</b>	<b>(14)</b>	<b>-</b>
<b>Net position</b>	<b>991.992</b>	<b>(205.418)</b>	<b>(686.854)</b>	<b>1.278.659</b>	<b>63.144</b>	<b>(536.902)</b>	<b>904.621</b>

Interest rate risk arises as a result of timing differences on the repricing of assets and liabilities.

The interest rate risk in the banking book is the risk of a reduction in net interest income as a result of adverse movements in interest rates. This risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated, separately for each currency. This difference is then multiplied by 1% (assumed change in interest rates) for the period from the repricing date until twelve months from the date of the analysis, to compute the annual impact on earnings of any changes in interest rates for the next twelve months for each currency. In order to calculate the total annual impact for all currencies, correlation coefficients between the interest rates of the various currencies are used.

In order to avoid volatility in net interest income, part of the non-interest bearing accounts and deposits which are inelastic to interest rate changes are invested mainly in fixed rate assets (with remaining maturity over one year).

# Bank of Cyprus Group

## Notes to the Financial Statements

### 34. Risk management (continued)

#### Interest rate risk (continued)

A parallel 1% increase in market interest rates across all currencies, applied to the Group's balance sheet as at 31 December 2006, would result in an increase in net interest income by C£11 million and in the fair value of financial instruments by C£17 million. A parallel 1% decrease in interest rates, on the other hand, would result in a decrease in net interest income by C£15 million and a reduction in the fair value of financial instruments by C£17 million. These financial instruments include derivatives that are used to hedge customer transactions. The impact of the change in their fair value on the Group's results will reverse over the life of the derivatives. The sensitivity analysis performed in order to calculate the above figures differs from the tables presented, in respect of the width of the time bands and the assumptions used in analysing assets and liabilities. Specifically, the sensitivity analysis takes into account behavioural characteristics such as the elasticity on interest rates of loans and deposits to changes in market rates.

The net interest margin of the Group for 2006 was 2,81% (2005: 2,60%) and is calculated on the basis of net interest income and the average balance of interest bearing assets.

In order to monitor interest rate risk, limits have been set for each business unit for the maximum impact that a 1% interest rate change can have on net interest income over the next twelve months as well as for the impact from changes in market expectations (as reflected by the yield curves). Each banking unit monitors these limits daily and Group Market Risk Management monitors the consolidated Group position on a monthly basis.

Analysis of assets and liabilities as at 31 December 2005, according to their contractual repricing or maturity date:

	Up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Non-interest bearing	Total
	C£000	C£000	C£000	C£000	C£000	C£000	C£000
<b>2005</b>							
<b>Assets</b>							
Cash and balances with central banks	549.700	-	124	-	-	61.857	<b>611.681</b>
Placements with banks	2.463.960	62.212	50.530	-	-	1.598	<b>2.578.300</b>
Investments at fair value through profit or loss	406	-	86	72.641	89	16.109	<b>89.331</b>
Loans and advances to customers	4.998.917	1.211.883	470.558	262.965	37.733	2.155	<b>6.984.211</b>
Investments available-for-sale and held-to-maturity	249.417	542.510	178.485	636.346	320.174	18.329	<b>1.945.261</b>
Other assets	123	2.600	5.145	266	-	353.465	<b>361.599</b>
<b>Total assets</b>	<b>8.262.523</b>	<b>1.819.205</b>	<b>704.928</b>	<b>972.218</b>	<b>357.996</b>	<b>453.513</b>	<b>12.570.383</b>
<b>Liabilities</b>							
Amounts due to banks	120.051	42.842	14.856	-	-	-	<b>177.749</b>
Customer deposits and other accounts	7.996.817	742.676	1.206.404	144.058	-	634.530	<b>10.724.485</b>
Debt securities in issue	-	317.928	-	-	-	288	<b>318.216</b>
Other liabilities	175	3.809	1.321	-	10	218.386	<b>223.701</b>
	8.117.043	1.107.255	1.222.581	144.058	10	853.204	<b>11.444.151</b>
Subordinated loan stock	114.635	249.946	-	-	-	-	<b>364.581</b>
<b>Total liabilities</b>	<b>8.231.678</b>	<b>1.357.201</b>	<b>1.222.581</b>	<b>144.058</b>	<b>10</b>	<b>853.204</b>	<b>11.808.732</b>
<b>Total position</b>	<b>30.845</b>	<b>462.004</b>	<b>(517.653)</b>	<b>828.160</b>	<b>357.986</b>	<b>(399.691)</b>	<b>761.651</b>
<b>Nominal amount of interest rate derivatives</b>	<b>19.305</b>	<b>116.156</b>	<b>164.104</b>	<b>(127.430)</b>	<b>(172.135)</b>	<b>-</b>	<b>-</b>
<b>Net position</b>	<b>50.150</b>	<b>578.160</b>	<b>(353.549)</b>	<b>700.730</b>	<b>185.851</b>	<b>(399.691)</b>	<b>761.651</b>

# Bank of Cyprus Group

## Notes to the Financial Statements

### 34. Risk management (continued)

#### Currency risk

Analysis of assets and liabilities as at 31 December 2006 by currency:

	Cyprus pounds	Euro	U.S. dollars	British pounds	Other currencies	Total
	€000	€000	€000	€000	€000	€000
<b>2006</b>						
<b>Assets</b>						
Cash and balances with central banks	275.526	163.204	188.474	54.734	1.150	<b>683.088</b>
Placements with banks	147.172	300.456	1.772.094	175.756	90.987	<b>2.486.465</b>
Investments at fair value through profit or loss	215.035	18.075	3.482	-	-	<b>236.592</b>
Loans and advances to customers	3.015.873	4.183.373	89.139	641.717	435.053	<b>8.365.155</b>
Investments available-for-sale and held-to-maturity	342.124	820.823	748.711	198.823	207	<b>2.110.688</b>
Property, equipment and intangible assets	104.243	52.099	-	7.129	626	<b>164.097</b>
Other assets	100.988	93.471	19.273	13.258	2.743	<b>229.733</b>
<b>Total assets</b>	<b>4.200.961</b>	<b>5.631.501</b>	<b>2.821.173</b>	<b>1.091.417</b>	<b>530.766</b>	<b>14.275.818</b>
<b>Liabilities</b>						
Amounts due to banks	85.050	135.974	36.000	777	3.527	<b>261.328</b>
Customer deposits and other accounts	2.900.351	4.760.343	2.979.427	1.112.271	347.344	<b>12.099.736</b>
Debt securities in issue	288	366.801	66.688	-	-	<b>433.777</b>
Other liabilities	106.309	120.973	10.625	13.092	5.352	<b>256.351</b>
	3.091.998	5.384.091	3.092.740	1.126.140	356.223	<b>13.051.192</b>
Subordinated loan stock	94.194	225.811	-	-	-	<b>320.005</b>
<b>Equity</b>	<b>904.621</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>904.621</b>
<b>Total liabilities and equity</b>	<b>4.090.813</b>	<b>5.609.902</b>	<b>3.092.740</b>	<b>1.126.140</b>	<b>356.223</b>	<b>14.275.818</b>
<b>Total position</b>	<b>110.148</b>	<b>21.599</b>	<b>(271.567)</b>	<b>(34.723)</b>	<b>174.543</b>	<b>-</b>
<b>Nominal amount of currency derivatives</b>	<b>(189.422)</b>	<b>49.129</b>	<b>272.577</b>	<b>41.784</b>	<b>(174.068)</b>	<b>-</b>
<b>Net position</b>	<b>(79.274)</b>	<b>70.728</b>	<b>1.010</b>	<b>7.061</b>	<b>475</b>	<b>-</b>

Currency risk results from adverse movements in the rates of exchange between currencies arising as a result of the existence of a net currency position in one or more currencies. Losses may arise from the trading book positions and from asset/liability management.

There are limits for the total foreign currency position by currency or group of currencies as well as for the total open position. These limits apply for each banking unit separately and are bigger for intraday positions. Smaller limits apply for overnight positions. Trading book positions are subject to daily and monthly stop-loss limits and Value at Risk limits which calculate with a 99% level of confidence the possible daily portfolio losses. The open position and stop-loss limits are monitored on a daily basis by the Group Market Risk Management Unit.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 34. Risk management (continued)

#### Currency risk (continued)

Currency risk exposure also arises on the net position of the branches and subsidiaries of the Group that have a reporting currency other than the Cyprus pound. The Group hedges the greater part of this risk by maintaining liabilities of the same amount and in the same currency as the net position of the subsidiaries or branches.

Analysis of assets and liabilities as at 31 December 2005 by currency:

	Cyprus pounds	Euro	U.S. dollars	British pounds	Other currencies	Total
	€000	€000	€000	€000	€000	€000
<b>2005</b>						
<b>Assets</b>						
Cash and balances with central banks	287.250	149.847	137.705	32.079	4.800	<b>611.681</b>
Placements with banks	111.665	269.003	1.965.326	153.500	78.806	<b>2.578.300</b>
Investments at fair value through profit or loss	84.055	4.404	872	-	-	<b>89.331</b>
Loans and advances to customers	2.654.884	3.454.998	98.647	523.759	251.923	<b>6.984.211</b>
Investments available-for-sale and held-to-maturity	531.169	628.588	584.627	200.665	212	<b>1.945.261</b>
Property, equipment and intangible assets	109.917	53.150	-	7.101	423	<b>170.591</b>
Other assets	102.000	58.697	17.778	10.137	2.396	<b>191.008</b>
<b>Total assets</b>	<b>3.880.940</b>	<b>4.618.687</b>	<b>2.804.955</b>	<b>927.241</b>	<b>338.560</b>	<b>12.570.383</b>
<b>Liabilities</b>						
Amounts due to banks	59.381	55.844	41.072	9.128	12.324	<b>177.749</b>
Customer deposits and other accounts	2.795.271	3.810.664	2.882.075	941.403	295.072	<b>10.724.485</b>
Debt securities in issue	288	317.928	-	-	-	<b>318.216</b>
Other liabilities	107.836	95.748	6.916	10.381	2.820	<b>223.701</b>
	2.962.776	4.280.184	2.930.063	960.912	310.216	<b>11.444.151</b>
Subordinated loan stock	92.534	272.047	-	-	-	<b>364.581</b>
<b>Equity</b>	<b>765.063</b>	<b>165</b>	<b>(3.628)</b>	<b>51</b>	<b>-</b>	<b>761.651</b>
<b>Total liabilities and equity</b>	<b>3.820.373</b>	<b>4.552.396</b>	<b>2.926.435</b>	<b>960.963</b>	<b>310.216</b>	<b>12.570.383</b>
<b>Total position</b>	<b>60.567</b>	<b>66.291</b>	<b>(121.480)</b>	<b>(33.722)</b>	<b>28.344</b>	<b>-</b>
<b>Nominal amount of currency derivatives</b>	<b>(88.908)</b>	<b>(44.518)</b>	<b>123.543</b>	<b>38.483</b>	<b>(28.600)</b>	<b>-</b>
<b>Net position</b>	<b>(28.341)</b>	<b>21.773</b>	<b>2.063</b>	<b>4.761</b>	<b>(256)</b>	<b>-</b>

# Bank of Cyprus Group

## Notes to the Financial Statements

### 34. Risk management (continued)

#### Liquidity risk

Analysis of assets and liabilities as at 31 December 2006 according to their contractual maturity date:

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	€000	€000	€000	€000	€000	€000
<b>2006</b>						
<b>Assets</b>						
Cash and balances with central banks	385.384	51.683	-	-	246.021	<b>683.088</b>
Placements with banks	2.350.846	27.060	53.574	54.985	-	<b>2.486.465</b>
Investments at fair value through profit or loss	18.174	-	152	138.450	79.816	<b>236.592</b>
Loans and advances to customers	2.065.097	238.364	863.402	2.339.201	2.859.091	<b>8.365.155</b>
Investments available-for-sale and held-to-maturity	8.833	74.481	317.557	1.167.163	542.654	<b>2.110.688</b>
Property, equipment and intangible assets	-	-	-	-	164.097	<b>164.097</b>
Other assets	50.633	33.742	37.882	43.979	63.497	<b>229.733</b>
<b>Total assets</b>	<b>4.878.967</b>	<b>425.330</b>	<b>1.272.567</b>	<b>3.743.778</b>	<b>3.955.176</b>	<b>14.275.818</b>
<b>Liabilities</b>						
Amounts due to banks	107.647	93.495	9.882	50.304	-	<b>261.328</b>
Customer deposits and other accounts	7.358.284	2.801.730	1.680.972	177.068	81.682	<b>12.099.736</b>
Debt securities in issue	51.008	33.437	1.296	347.748	288	<b>433.777</b>
Other liabilities	104.864	82.412	40.112	8.448	20.515	<b>256.351</b>
	7.621.803	3.011.074	1.732.262	583.568	102.485	<b>13.051.192</b>
Subordinated loan stock	-	-	-	-	320.005	<b>320.005</b>
<b>Total liabilities</b>	<b>7.621.803</b>	<b>3.011.074</b>	<b>1.732.262</b>	<b>583.568</b>	<b>422.490</b>	<b>13.371.197</b>
<b>Net position</b>	<b>(2.742.836)</b>	<b>(2.585.744)</b>	<b>(459.695)</b>	<b>3.160.210</b>	<b>3.532.686</b>	<b>904.621</b>

Liquidity risk is the risk that the Group is unable to fully or promptly meet payment obligations and potential payment obligations as and when they fall due. This risk includes the possibility that the Group may have to raise funding at higher cost or sell assets at a discount.

### 34. Risk management *(continued)*

#### Liquidity risk *(continued)*

The Group's banking business requires a steady flow of funds both to replace existing deposits as they mature and to satisfy customer requests for additional borrowing. Undrawn borrowing facility commitments and the level of outstanding contingent obligations are taken into consideration in monitoring the Group's liquidity position. Group assets are mainly funded by deposits. The distribution of sources and the maturity of deposits are actively monitored in order to avoid a concentration of funding needs at any point in time or from a small number of depositors. The Group manages this risk by maintaining at all times a diversified stock of highly liquid assets in the principal currencies in which it transacts.

The responsibility for liquidity risk management rests with the treasury units at each location in cooperation with the Group Treasury.

Group Market Risk Management is responsible for monitoring the liquidity position of all banking units of the Group in order to ensure compliance with both internal policies as well as the limits set by the regulatory authorities in the countries where the Group operates.

The liquidity risk tables have been prepared in accordance with IFRSs which require that assets and liabilities are analysed in time bands according to the remaining period to contractual maturity from the balance sheet date. Regulatory authorities set liquidity ratios for the cumulative open liquidity position up to one month in accordance with their own directives.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 34. Risk management (continued)

#### Liquidity risk (continued)

Analysis of assets and liabilities as at 31 December 2005 according to their contractual maturity date:

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
	€000	€000	€000	€000	€000	€000
<b>2005</b>						
<b>Assets</b>						
Cash and balances with central banks	376.640	-	124	-	234.917	<b>611.681</b>
Placements with banks	2.459.377	62.421	39.958	5.074	11.470	<b>2.578.300</b>
Investments at fair value through profit or loss	8.509	-	86	73.047	7.689	<b>89.331</b>
Loans and advances to customers	1.998.225	249.395	732.733	1.991.390	2.012.468	<b>6.984.211</b>
Investments available-for-sale and held-to-maturity	11.020	59.598	208.770	1.234.375	431.498	<b>1.945.261</b>
Property, equipment and intangible assets	-	-	-	-	170.591	<b>170.591</b>
Other assets	28.012	35.291	29.959	34.263	63.483	<b>191.008</b>
<b>Total assets</b>	<b>4.881.783</b>	<b>406.705</b>	<b>1.011.630</b>	<b>3.338.149</b>	<b>2.932.116</b>	<b>12.570.383</b>
<b>Liabilities</b>						
Amounts due to banks	120.051	42.842	14.856	-	-	<b>177.749</b>
Customer deposits and other accounts	6.488.602	2.881.828	1.186.472	154.805	12.778	<b>10.724.485</b>
Debt securities in issue	-	-	146.169	171.759	288	<b>318.216</b>
Other liabilities	129.125	46.964	35.776	5.633	6.203	<b>223.701</b>
	6.737.778	2.971.634	1.383.273	332.197	19.269	<b>11.444.151</b>
Subordinated loan stock	-	-	-	-	364.581	<b>364.581</b>
<b>Total liabilities</b>	<b>6.737.778</b>	<b>2.971.634</b>	<b>1.383.273</b>	<b>332.197</b>	<b>383.850</b>	<b>11.808.732</b>
<b>Net position</b>	<b>(1.855.995)</b>	<b>(2.564.929)</b>	<b>(371.643)</b>	<b>3.005.952</b>	<b>2.548.266</b>	<b>761.651</b>

#### Regulatory risk

The operations of the Company are supervised by the Central Bank of Cyprus. All banks in Cyprus, including Bank of Cyprus Public Company Ltd, have to comply with the requirements of both the European Union and Cyprus legislation, as well as with the regulatory framework of the Central Bank of Cyprus. Legal or regulatory changes may be introduced in the future either by the European Union or by the Central Bank of Cyprus which may adversely affect the results and financial position of the Company.

The operations of the insurance companies are supervised by the Registrar of Insurance Companies. Legal and regulatory changes may be introduced in the future by the European Union or by the Registrar which may adversely affect the results and financial position of the Group's insurance companies.

### 34. Risk management *(continued)*

#### **Intensity of competition**

The Group faces intense competition in the areas in which it operates. In Cyprus, competition originates primarily from commercial banks, co-operative credit and savings institutions, international banking units and insurance companies, which offer similar products and services.

The accession of Cyprus to the European Union and the expected introduction of the Euro in 2008 facilitates the operation of European banking, financial and insurance organisations in the Cyprus market, thus increasing competition.

In Greece, the Group competes with Greek banks, which control the largest share of the total assets of the banking system, as well as with co-operative banks and branches of credit institutions headquartered in other European Union member countries.

Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Group, may create pressure on Group profitability.

#### **Litigation risk**

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect the Group's operations and results. Litigation risk arises from pending or potential legal proceedings against the Group (Note 29) or in the event that legal issues are not properly dealt with by the Group, resulting in the cancellation of contracts with customers and consequently legal actions against the Group.

#### **Political and economic risk**

External factors which are not under the control of the Group, like political and economic developments in Cyprus and overseas, may adversely affect the operations of the Group, its strategy and prospects. Such factors include changes in government policy, changes in European Union and European Central Bank policies, fluctuations in consumer confidence and the level of consumer spending, political instability or military conflict which affect Europe and/or other areas overseas and social developments in the countries in which the Group operates.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 35. Directors' interest in the share capital of the Company

The beneficial interest in shares of the Company's directors, their spouses, minor children and companies in which they hold, directly or indirectly, at least 20% of the voting shares, at 31 December 2006 and 20 February 2007, is set out below:

	31 December 2006	20 February 2007
	%	%
<i>Non executives</i>		
E. P. Ioannou	0,009	0,009
A. Artemis	0,333	0,333
Chr. S. Pantzaris	0,098	0,098
D. P. Ioannou	0,177	0,177
V. G. Rologis	0,002	0,002
C. Z. Severis	0,402	0,402
Th. Aristodemou	0,019	0,019
Chr. G. Christofides	0,032	0,032
E. Xenophontos	0,006	0,006
A. Pittas	0,037	0,037
A. Diogenous	0,175	0,170
G. M. Georgiades	0,037	0,037
A. J. Jacovides	0,022	0,022
Chr. Mouskis	0,031	0,031
M. Mavrommatis	0,027	0,027
<i>Executives</i>		
A. Eliades	0,001	0,001
Ch. G. Stavrakis	0,011	0,011
Y. Kypri	0,004	0,004
	<b>1,423</b>	<b>1,418</b>

At 31 December 2006, two non executive directors had 10.000 (2005: 10.000) Share Options 2001/2007 granted during the period when they had executive duties at the Group. At 31 December 2006, the executive directors had 3.000 (2005: 9.000) Share Options 2001/2007. During the year, 6.000 Share Options 2001/2007 were exercised by their holders at C£3,26 per share (Note 25). At 31 December 2006, the executive directors had 15.000 Share Options 2006/2007 (Note 37).

### 36. Shareholders holding more than 5% of the share capital of the Company

As at 31 December 2006 and 20 February 2007 Piraeus Bank S.A. had a direct and indirect shareholding amounting to 8,1% of the share capital of the Company. Furthermore, as at 31 December 2006 and 20 February 2007, 6,9% of the share capital of the Company was held by pension/retirement plans of the Company in Cyprus. There are no other shareholders holding more than 5% of the issued share capital of the Company.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 37. Related party transactions

	2006	2005	2006	2005
	Number of directors		C£000	C£000
Loans and advances to members of the Board of Directors and connected persons:				
- more than 1% of the Company's net assets per director	4	4	71.542	70.689
- less than 1% of the Company's net assets per director	14	14	12.688	18.842
	18	18	84.230	89.531
Loans and advances to key management personnel and connected persons			523	1.310
Total loans and other advances			84.753	90.841
Analysis of loans and advances:				
Members of:				
- the Board of Directors and key management personnel			4.806	6.568
- connected persons			79.947	84.273
			84.753	90.841
Tangible securities			135.760	105.451
Interest income			4.498	5.019
Deposits of:				
- members of the Board of Directors and key management personnel			3.291	2.906
- connected persons			14.990	7.322
			18.281	10.228
Interest expense			322	288

In addition to loans and advances, there were contingent liabilities in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend amounting to C£51.792 thousand (2005: C£41.018 thousand). Of these, C£48.503 thousand (2005: C£37.691 thousand) relate to directors and their connected persons, whose total credit facilities exceed 1% of the net assets of the Company per director. There were also contingent liabilities to Group key management personnel and their connected persons amounting to C£391 thousand (2005: C£303 thousand).

Connected persons include spouses, minor children and companies in which directors or key management personnel hold, directly or indirectly, at least 20% of the voting shares.

All transactions with members of the Board of Directors and with their connected persons are made on normal business terms. A number of credit facilities have been extended to key management personnel with the same terms as those which apply to the rest of the Group's employees.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 37. Related party transactions (continued)

#### Fees and emoluments of members of the Board of Directors and Group key management personnel

	2006	2005
	C£000	C£000
<b>Directors' emoluments</b>		
<i>Non executives</i>		
Fees	475	352
<i>Executives</i>		
Emoluments in executive capacity:		
Salaries and other short term benefits	939	-
Employer's contributions	29	-
Retirement benefit plan costs	88	-
Share-based payments – Share Options	5	-
Total emoluments in executive capacity	1.061	-
Total fees and emoluments of directors	1.536	352
<b>Key management personnel emoluments</b>		
Salaries and other short term benefits	799	1.479
Employer's contributions	43	32
Retirement benefit plan costs	89	140
Share-based payments – Share Options	10	-
Total key management personnel emoluments	941	1.651
<b>Total</b>	<b>2.477</b>	<b>2.003</b>

During 2006, the three members of the Group Executive Management team were appointed as members of the Board of Directors of the Company. Their total emoluments for the year, including employer's contributions and other benefits were: one director in the range of C£250 – C£300 thousand, one director in the range of C£300 – C£350 thousand and one director in the range of C£450 – C£500 thousand. During 2005 there were no executive directors and the emoluments of the three members of the Group Executive Management team amounting to C£903 thousand, was included in the remuneration of the key management personnel together with that of the five Group General Managers. The amount presented as emoluments of key management personnel for 2006 relates to the emoluments of the six Group General Managers.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 37. Related party transactions (continued)

#### **Fees and emoluments of members of the Board of Directors and Group key management personnel (continued)**

In the context of the Share Options 2006/2007 issued by the Company to its permanent employees on 30 September 2006, 15,000 Share Options were granted to the executive directors at the exercise price of C£4,32 per share (fair value C£0,69 per Option) and 18,000 Options were granted to key management personnel at the exercise price of C£3,70 per share (fair value C£1,06 per Option). The Share Options 2006/2007 can be exercised from 31 March 2007 to 30 June 2007.

The executive directors participate in the main retirement benefit plan for the Group's permanent employees in Cyprus, which is a defined benefit plan. Their total retirement benefits increased during 2006 by C£489 thousand.

A provision of C£1.100 thousand has been made in year 2004 and prior years in respect of amounts payable to three directors, following their retirement from executive duties. The final amount to be paid is C£1.367 thousand. The difference was included in the 2006 results.

#### **Other transactions with related parties**

Mr Andreas Artemis, Vice-Chairman of the Board of Directors of the Company, holds an indirect interest and is Chairman of the Board of Directors of the Commercial Union Assurance (Cyprus) Ltd group which is engaged in general insurance business in Cyprus and Greece. The Commercial Union Assurance (Cyprus) Ltd group has entered into reinsurance arrangements with General Insurance of Cyprus Ltd, a subsidiary of the Company. The total reinsurance premiums assigned to the Commercial Union Assurance (Cyprus) Ltd group in 2006 amounted to C£703 thousand (2005: C£618 thousand).

Mrs Anna Diogenous, member of the Board of Directors of the Company, holds an indirect interest in the company Pylones SA Hellas, which supplies the branch of the Company in Greece with equipment and services following tender procedures and in the company Unicars Ltd which supplies the Company in Cyprus with cars and related services. The total purchases from these companies in 2006 amounted to C£486 thousand (2005: C£715 thousand).

Mr Polys G. Polyviou, member of the Board of Directors of the Company until 26 June 2006, is a partner in the law office Chryssafinis & Polyviou, who are the external Legal Advisers of the Group and also handle court cases and legal proceedings on behalf of the Group in Cyprus and abroad. The total legal fees paid by the Group to the law office Chryssafinis & Polyviou for the period until the resignation of Mr Polyviou from the Board of Directors amounted to C£219 thousand (year 2005: C£402 thousand). The same law office is also assigned court cases and actions against Group debtors. The total amount paid to the law office of Chryssafinis & Polyviou for these cases and charged to these debtors for the period until the resignation of Mr Polyviou from the Board of Directors, was C£606 thousand (year 2005: C£1.081 thousand).

Mr Costas Z. Severis, member of the Board of Directors of the Company, is the main shareholder of the company D. Severis and Sons Ltd, which is a general agent of the subsidiary of the Company, General Insurance of Cyprus Ltd. The total commissions paid to D. Severis and Sons Ltd in 2006 amounted to C£92 thousand (2005: C£98 thousand).

On 14 January 2005, the Group's subsidiary General Insurance of Cyprus Ltd, acquired the insurance portfolio of the company Georgios Giabra Pierides Ltd for a consideration of C£540 thousand. Georgios Giabra Pierides Ltd was a general agent of General Insurance of Cyprus Ltd. The Chairman of the Board of Directors of Bank of Cyprus Public Company Ltd at the time, Mr Solon A. Triantafyllides, and Mr Polis G. Polyviou a member of the Board of Directors of Bank of Cyprus Public Company Ltd and also of General Insurance of Cyprus Ltd at the time, had a substantial interest in the company Georgios Giabra Pierides Ltd.

# Bank of Cyprus Group

## Notes to the Financial Statements

### 38. Group companies

The companies and branches included in the consolidated financial statements of the Group and their activities (by country of registered office) are:

<b>Cyprus</b>	
Bank of Cyprus Public Company Ltd	Commercial bank
Mortgage Bank of Cyprus Ltd	Commercial bank
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Investment banking services
General Insurance of Cyprus Ltd	General insurance business
EuroLife Ltd	Life assurance business
Kermia Ltd	Property trading and development
Kermia Properties & Investments Ltd	Property trading and development
Kermia Hotels Ltd	Hotel business
BOC Ventures Ltd	Management of venture capital investments
Tefkros Investments Ltd	Investments fund
Bank of Cyprus Mutual Funds Ltd	Distribution of mutual funds
JCC Payment Systems Ltd	Processing of credit card transactions
<b>Greece</b>	
Bank of Cyprus Public Company Ltd (branch)	Commercial bank
Kyprou Leasing SA	Leasing business
Kyprou Commercial SA	Financing of motor vehicles and other consumer products
Kyprou Securities SA	Investment banking services
Kyprou Mutual Fund Management Company (Kyprou AEDAK)	Management of mutual funds
Kyprou Properties SA	Property management
Kyprou Insurance Services Ltd	General insurance brokers
Kyprou Zois (branch of EuroLife Ltd )	Life assurance business
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	General insurance business
<b>United Kingdom</b>	
Bank of Cyprus United Kingdom (branch of Bank of Cyprus Public Company Ltd)	Commercial bank
Old Company (BCL) Ltd, previously Bank of Cyprus (London) Ltd	Commercial bank (inactive)

# Bank of Cyprus Group

## Notes to the Financial Statements

### 38. Group companies (continued)

<b>Channel Islands</b>	
Bank of Cyprus (Channel Islands) Ltd	Commercial bank
Tefkros Investments (CI) Ltd	Investments fund
<b>Australia</b>	
Bank of Cyprus Australia Pty Ltd	Commercial bank
<b>Romania</b>	
Bank of Cyprus Romania (branch of Bank of Cyprus Public Company Ltd)	Commercial bank
Cyprus Leasing Romania IFN SA	Leasing business
<b>Ireland</b>	
BOC International Fund Management Ltd	Management of mutual funds (inactive)

On 1 January 2006, both the operations and the assets and liabilities of the Group subsidiary companies Bank of Cyprus Finance Corporation Ltd and Bank of Cyprus (Factors) Ltd were transferred to Bank of Cyprus Public Company Ltd, with the parallel dissolution, without receivership of the two subsidiaries.

The Group has decided the termination of the activities of its subsidiaries BOC International Fund Management Ltd and old Company (BCL) Ltd and has started the dissolution process.

All the above companies are wholly owned subsidiaries, except for JCC Payment Systems Ltd, in which the Company holds 45% of the issued share capital which amounts to C£1 million. This company is accounted for as an interest in a jointly controlled entity.

There were no other changes in the basis of consolidation or the companies being consolidated compared to 31 December 2005.

The Group's share in the key financial figures of the jointly controlled entity are:

	<b>2006</b>	<b>2005</b>
	<b>C£000</b>	<b>C£000</b>
Gross income	<b>5.887</b>	5.729
Profit before tax	<b>2.475</b>	2.378
Net assets	<b>10.343</b>	8.810
Total assets	<b>13.348</b>	10.605

### 39. Events after the balance sheet date

On 9 February 2007, the Group announced that it has completed the sale of its shares in Universal Life Insurance Public Co. Ltd (amounting to 22% of the share capital of the company) to Mr Andreas Georgiou and Photos Photiades Group Ltd, according to the agreement entered into on 13 July 2006. The consideration amounts to C£6,1 million and the book value of the above shares at 31 December 2006 amounted to C£6,1 million.

On 12 December 2006 the Company submitted a public tender offer to the shareholders of Cytrustees Investment Public Company Limited for the acquisition of up to 50% plus one share of Cytrustees. The consideration offered amounted to €2,20 for each share in cash and was revised to €2,45 per share on 8 February 2007. As at 27 February 2007 the Group held, directly and indirectly, 21% of the target company's share capital.

# Independent Auditor's Report to the Members of Bank of Cyprus Public Company Ltd

## Report on the Financial Statements

We have audited the consolidated financial statements of Bank of Cyprus Public Company Ltd (the Company) and its subsidiaries (the Group) on pages 6 to 83, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Board of Directors' Responsibility for the Financial Statements*

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the requirements of the Cyprus Companies Law, Cap 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the Company's members, as a body, in accordance with Section 156 of the Companies Law, Cap. 113. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report to the Members of Bank of Cyprus Public Company Ltd

## *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and International Financial Reporting Standards as issued by the IASB and the requirements of the Cyprus Companies Law, Cap 113.

## **Report on Other Legal Requirements**

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 3 to 5 is consistent with the financial statements.

## **Ernst & Young**

Nicosia

27 February 2007